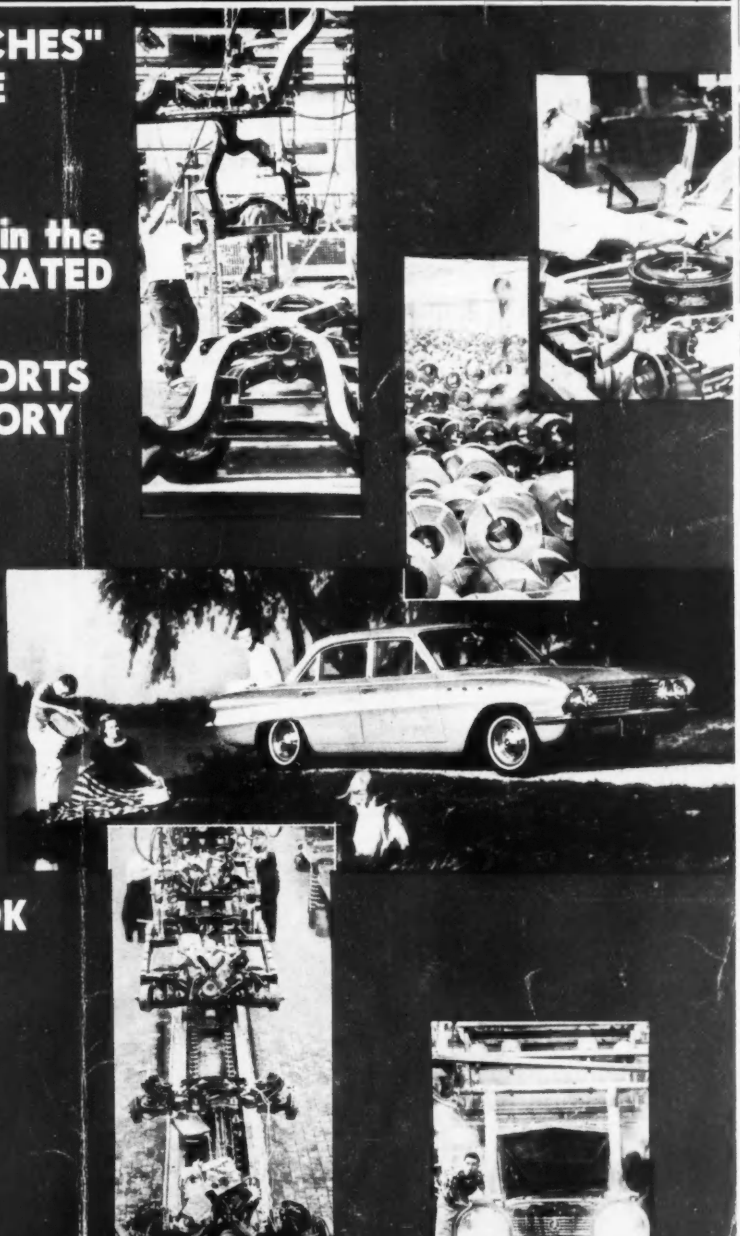
★ MARKET IN TEST PHASE NOW ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

MAY 6, 1961 85 CENTS



HE NEWLY PROPOSED "PATCHES" ON OUR TAX STRUCTURE

— That await Congressional action

By PAUL MAYNARD

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Extent to Which

e QUALITY of LEADERSHIP in the OCK MARKET Has DETERIORATED

By R. De MILLE WYCKOFF

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t QUARTER EARNINGS REPORTS ELL ONLY PART of 1961 STORY

By WARD GATES

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Special Studies of Major Indnstries

S The STEEL COMPANIES DIG THEIR WAY OUT

By JOHN MARCHESI

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THE AUTO INDUSTRY IN TRANSITION

By CARROL A. MUCCIA

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VALUATING 1961-62 OUTLOOK FOR AUTO ACCESSORIES and The RUBBERS

— Near term — longer term

By GEORGE E. WINES

★

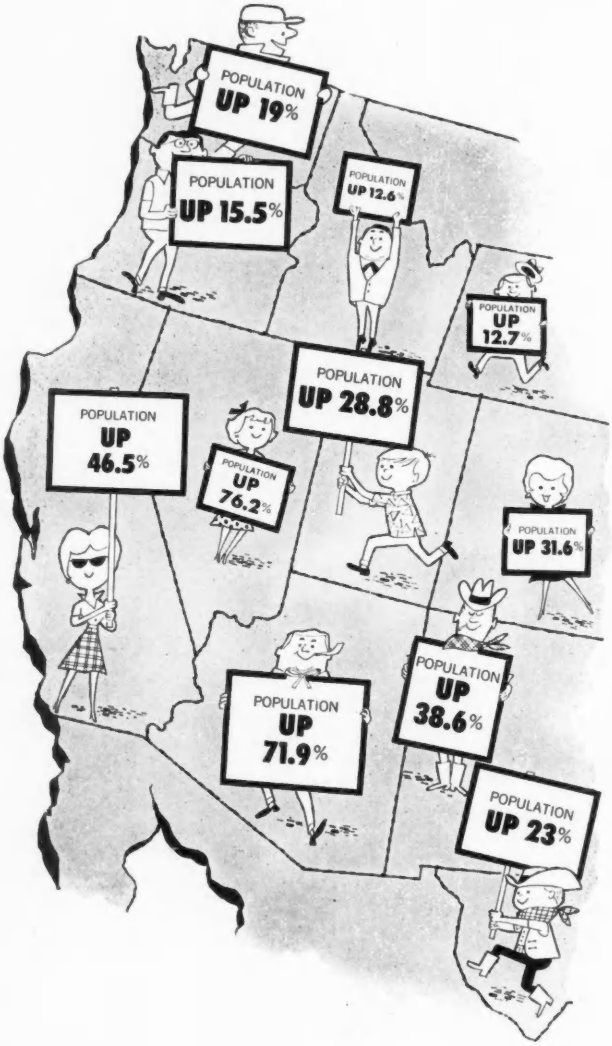
ber Four . . . A First-Hand Report on

LATEST SHIFTS IN 1961 DEFENSE EXPENDITURES

— And who will get the orders

By JEROME ELSWIT

The West rockets ahead with
more and more energy
from natural gas



Ten-Year Population Growth Figures from U.S. Census, 1950 and 1960.

Growth and expansion continue to be the two big activities in the West—both for the people who live and work and play in this booming region, and for El Paso Natural Gas Company which supplies natural gas to so many of them for so many purposes.

Much of the story in detail is in the Company's Annual Report for 1960, just out.

The growth part of the story for El Paso, in a sentence:

In 1960, El Paso furnished customers in 11 Western states more than 1¼ trillion cubic feet of gas—an all-time record and over four times as much as was delivered just a decade ago.

The growth story in the 11 states is a climb in population to a total of 35,718,636 (1960 census), up 33.9 per cent in the past 10 years and still rocketing.

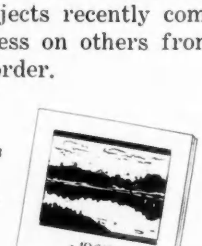
As for expansion—

Demand for El Paso's services and products by long-time customers keeps increasing as families and communities and businesses grow. Then add the millions of new people, more new businesses and all their needs. Add, too, the ever-increasing realization by everyone of the economy and conveniences of gas as a source of dependable energy for a multitude of uses.

And El Paso is expanding to meet this need. To supply its customers—including such growth areas as California—it has developed the most diversified gas supply of any company in the nation. Today, El Paso's pipelines are connected with the principal producing areas of the West and Southwest, in addition to vast reserves in Canada.

The Company's Annual Report reviews a number of important projects recently completed, and reports progress on others from Canada to the Mexican border.

For copies of El Paso's 1960 Annual Report write to: El Paso Natural Gas Company, El Paso, Texas



EL PASO NATURAL GAS COMPANY

El Paso Natural Gas Company provides natural gas to industrial customers and distribution companies in Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, Washington, West Texas and Wyoming.

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

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CONTENTS

Our cover depicts the auto industry — from assembly to the finished product. Photos courtesy of General Motors.

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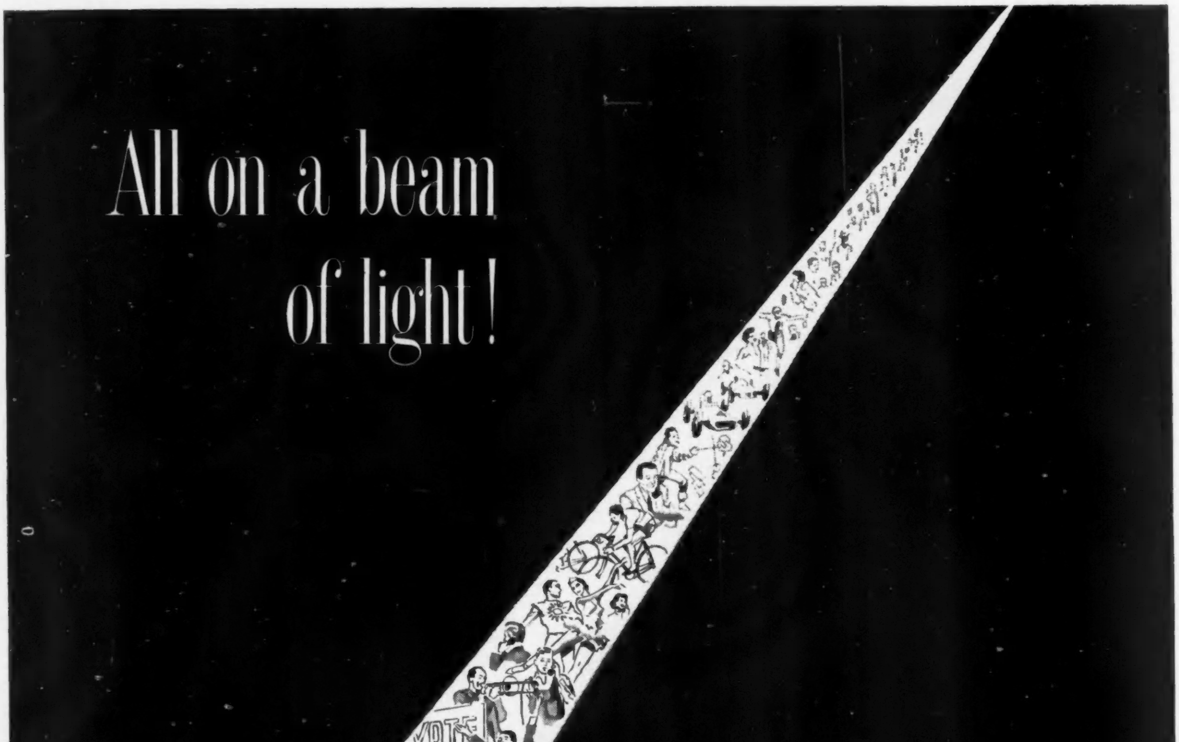


Bell Telephone scientists recently transmitted the human voice for the first time on a beam of "coherent" infrared light.

To do this they used their new Optical Maser—a revolutionary device which may someday make light a new medium for telephone, TV and data communications.

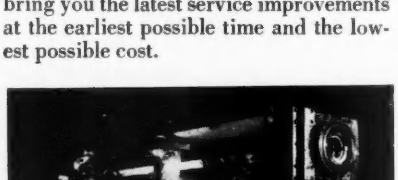
Here's why:

Light waves vibrate tens of millions of times faster than ordinary radio waves. Because of these high frequencies, light beams have exciting possibilities for handling enormous amounts of information.

Ordinary light waves—the kind put out by your living room lamp—move like an unruly mob. Coherent light waves move like disciplined soldiers. Theoretically they can be controlled, directed and modulated just as radio waves are now.

The possibilities are breath-taking. Light beams might be transmitted through long pipes, or could someday be just what are needed for communications in space—for example, between space ships.

Many other uses for coherent light beams are being thought of as Bell Laboratories experiments go forward. Continuing research like this requires adequate telephone company profits so that we can bring you the latest service improvements at the earliest possible time and the lowest possible cost.



Bell Laboratories scientist adjusts new Optical Maser model, first such that operates continuously. Maser uses very little power, transmits narrowest light beam ever achieved. Name stands for "Microwave Amplification by Stimulated Emission of Radiation."

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

UNREALISTIC HARASSMENT OF BUSINESS EXECUTIVES . . . It seems incongruous that on the one hand, the Administration should be putting on the pressure, and be willing to spend huge sums to turn the tide in the recession—and on the other—choose this critical time to harass business executives with antitrust suits on one ground or another—a situation that is bound to so bedevil and engage their constructive efforts in fighting these charges—that they cannot concentrate on the main issue, i.e., that of laying the foundation for a sound recovery. Certainly this is not the time to disrupt and disorganize executive thinking and forward-planning.

Of course, we do not hold any brief for shady practices. What we are talking about is the reopening of antitrust cases having to do with mergers and matters of that sort which have already been settled. Why is it necessary to go back into cases that were closed five and ten years ago, when there is an imperative need for concentrating on the ways and means for stopping the grafters in and out of government who are in collusion to rob the people and the state?

Why, for instance, doesn't the government act to stop union leaders from continually demanding higher wages and fringe benefits of one kind or another in this time of financial crisis, when they know full well that the wage spiral is already so high that for some years past appropriations have never stretched far enough to cover the cost of the products and supplies designated, due to the wage increases that went into effect between the time the appropriations were approved and the order placed? As a result, the government was left with the choice of either calling for additional appropriations or cutting back the order, and the latter was the case in most instances.

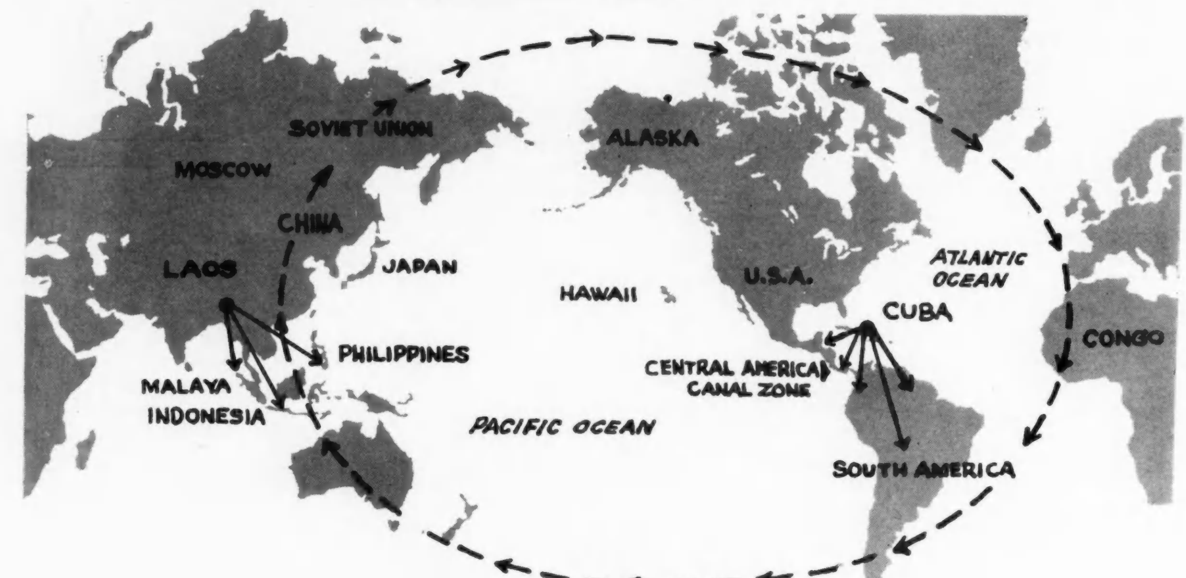
Isn't it therefore logical that instead of dealing with post mortems on closed cases, top priority should be given to the wage-price push in matters that are occupying the President's advisors today? And we are not referring to the intellectuals who flopped in Cuba, where decisions were based on theory rather than commonsense.

We mean advisors whose practical approach to business is highly realistic—whose experience has been grounded in the various ramifications of manufacturing and markets, who are accustomed to coping with the varying problems entailed in running a vast enterprise.

There is no question that mistakes have been made, but they are the human mistakes of individuals living in an age of relaxed morality and ethics. Let us remember that the worst offenders today, the greedy gangster coteries, are still on the loose—not in jail; and it seems ridiculous to make goats of the managers of business who can serve the government and the country well at this crucial time. And we must point out also that government attacks create unnecessary loss and hardship for millions of innocent citizens who as stockholders are the owners of American enterprise, and are entitled to the protection of the Administration.

As I See It!

By MALCOLM STEWART



THE POSITION OF THE UNITED STATES TODAY . . .

— As the Soviet Union and Red China seek to outflank us . . .
— thru Cuba and South America on the one side
— and thru Laos down to Singapore on the other side of the world
— to destroy NATO and open the way to conquest of Berlin

THE FREE WORLD this fateful Spring is reeling under one disastrous blow after another. The news from abroad, almost without exception, is bad.

The hopeful spirit of the early days of President Kennedy's Administration has given way to a mood of grim realism.

There is little talk now of how to get along with the Russians. There's much discussion about how to shore up the crumbling anti-Communist front at its most critical points.

The United States is in the position of a boxer who had been concerned about how his style was impressing the audience, only to find it necessary to hang on grimly in the clinches while trying to simply figure out how to survive.

The NATO alliance continues to be plagued by troubles just when it appears likely it will be called upon to withstand new Soviet pressures. The debacle in Cuba has emphasized the determined Communist holding action just off the coast of the United States. The stage is set for a Western diplomatic defeat in Laos. The forces of chaos and disaster are biding their time in the Congo.

With the United States and its Allies rocked back on their heels by a series of reverses, Soviet Premier Nikita Khrushchev has new chances to employ the cynical opportunism which is the hallmark of International Communism.

Berlin and West Germany may be his next targets. While the Red campaign of terror, subversion, infiltration and military pressure goes on relentlessly around the World, Khrushchev would hardly lose sight of the fact that for him the big ball game is in Western Europe.

The danger of a new Soviet move to isolate West Berlin and force West Germany to terms, increases as the troubles and the preoccupations of the Allies multiply.

The one cheering development in Washington these dark days is President Kennedy's apparent intention to take off the gloves and play rough if that's what it takes to stem the constant erosion which is undermining the position of the anti-Communist nations.

He has promised to worry less about the sensibilities of the faint-hearted and fair weather Allies, and more about the basic U.S. national security factors. He has named General Maxwell Taylor to head up a new program of "unconventional warfare"—the dirty business of guerrilla fighting, sabotage, infiltration and treachery necessary to fight those who employ such methods with devastating effect against the U.S. and its friends.

The latest Algerian crisis sent shudders of apprehension through the NATO Alliance. General Charles de Gaulle survived it but the danger of new troubles is very real. The peril does not end with the collapse of the French rightist effort.

The Communists always lurk close behind the scenes to stir up the Algerians if such fits in with Kremlin plans. Russia supported de Gaulle in his early efforts in Algeria but since then has been intervening more and more on the rebels' behalf.

France—even a reluctant France—is the keystone of the Western Alliance in Europe. When France is constantly imperiled by the threat of Algerian trouble, the future of NATO is not reassuring.

President Kennedy has won firm pledges from both British Prime Minister Macmillan and German Chancellor Adenauer to cooperate in his sweeping program to strengthen NATO's political unity and beef up its military might.

But this will not mean much unless President de Gaulle can be persuaded to cooperate more effectively with NATO, agreeing to integrate his forces and undertake other cooperative measures.

Kennedy hopes at his meeting at the end of May with de Gaulle in Paris to win increased cooperation in NATO from the aloof French President. Kennedy's chances, under the best of circumstances, would not be too good. With de Gaulle deeply concerned over Algeria, still trying to reach a settlement with the rebels, the prospects don't seem too happy.

However, Kennedy's swift offer during the abortive rightist revolt in Algeria to give de Gaulle "any assistance" he required may make the French leader more amenable to persuasion. Time will tell.

"The beautiful and the damned."

What is very clear is that if French preoccupation with Algeria and other problems further weakens NATO, Khrushchev probably will not wait too much longer before trying again for his number one goal. This is to force the Allies out of West Berlin and turn the heat on West Germany to come to terms with the Soviet puppet regime in East Germany.

The fiasco of the anti-Castro invasion of Cuba, supplied and supported by the United States shocked Washington, and the non-Communist World, by disclosing graphically the iron grip which the Cuban dictator has been able to fasten on the island.

It shattered illusions in Washington that the island was ripe for revolt, seething with unrest under Castro. It showed that Castro, with Czech and Soviet help, has been able to impose in Cuba a classic example of Communist control down to the block-by-block and house-by-house level.

The failure of the U.S. Central Intelligence Agency to assess the Cuban situation properly, followed by its admission that the revolt in Algeria came as a surprise, has raised serious questions in Washington about the efficiency of this vast organization whose budget and operations are shrouded in secrecy.

Kennedy has given General Taylor the added task of reviewing U.S. intelligence operations to see what's wrong.

One salutary effect of the Cuban debacle has been Kennedy's declaration of what is, in effect, a revised Monroe Doctrine to prepare for a more effective fight.

In his speech to the American Society of Newspaper Editors he laid down a firm policy which caused some anguish among those who believe that cooperation means reducing all action to the lowest common denominator of those theoretically involved.

►**Kennedy said firmly that the United States would no longer allow itself to be paralyzed in the fight against Communist penetration of the Western Hemisphere, by the policy of "non-intervention" when that policy was being used merely to cloak the inaction of those who did not want to "meet their commitments".**

In other words, he made it clear that Inter-American cooperation is supposed to be a two-way street—not a one-way thoroughfare to be travelled only when it leads to pleasant ends such as U.S. aid, but abandoned when it is necessary to travel the tough road back against Communist terror.

The United States, Kennedy said, will walk the road alone if its Hemispheric Allies are too fainthearted to come along.

There is little doubt in Washington that he meant what he said. The specific implementation is yet to come. But Kennedy made a firm pledge not to "abandon Cuba to Communism."

►**In Laos the stage is being set for another disaster which may have long-range implications for all Southeast Asia. The 14-nation conference on Laos scheduled to begin in Geneva in a couple of weeks is heavily stacked against the U.S. and its Allies.**

The Communist Lao rebels, backed by Russia and Red China and heavily supplied by the Soviet Union, now hold so much territory that a political compromise wil have to give them a large number of posts in the proposed new coalition government.

Russia, Red China and North Viet Nam will be at Geneva to see that the Lao Communists get the best possible deal—which will be a perilous result for the West.

Talk of an Austria-type neutrality for Laos, which is heard around the State Department and the British Foreign Office, is so much poppycock—diplomatic whistling in *(Please turn to page 232)*

Market In Test Phase Now

Even without shocks and worries in the foreign news, the advance in stock prices probably would have been checked anyway because it had run to excess in too many issues. Whether last week's reaction low will hold is conjectural. Lean to the cautious side as regards new buying and portfolio switching.

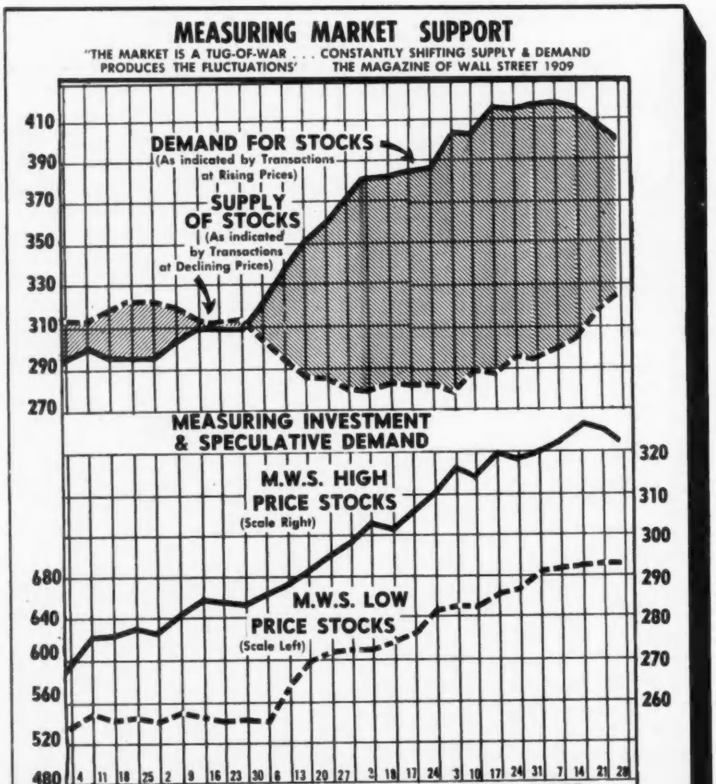
By A. T. MILLER

THE artificial nature of the market, characterized by the spectacular rise in unseasoned issues, which have been moving too far too fast, is underscored by a nervous sensitivity, which causes it to become more and more vulnerable to disturbing or disappointing news.

Coming on top of the failure of the recent feeble, ill-planned effort to topple Cuban Dictator Castro, the news of the attempted French military revolt in Algeria touched off a sharp market spill last Monday, with the industrial average off 12.60 points in a jittery market.

The break was magnified by a weakening of the technical position, and again showed up the unimportance of the rails as a market barometer. In this connection, it was interesting to note that the dip in the rails in the same session was only fractional. In fact in the rising market this average has been sagging for some weeks, more in line with the slack in the industry. (Even prior to last week, rails had given up over a third of the total advance from last September's low.)

The subsequent reassuring French news brought a Tuesday rebound of 10.43 points by the industrial average, but the upside effort petered out quickly — giving brokers little time to start singing "happy days are here again." Over the remaining three sessions to the week end, prices eased off for a total of 4.36 points in the Dow average.



Waiting for News and Clues

In the week's final session, trading volume was down to 3,708,680 shares, lowest in over two months. So at present many fewer people are "in the game" than in the recent past.

Many more are on the sidelines and inclined to look and listen for a while, waiting on world events to learn whether Kennedy will commit us to military intervention in Laos, or let it go into the Communist camp? What about Cuba?

And what of the market? What can cause it to extend its rise in the near future? Or is more reaction or irregularity in the making?

Washington's answer to the first questions has to come quickly — and perhaps nothing can now prevent an unhappy outcome for us and the Free World. Only the market can answer the other questions.

As We See It

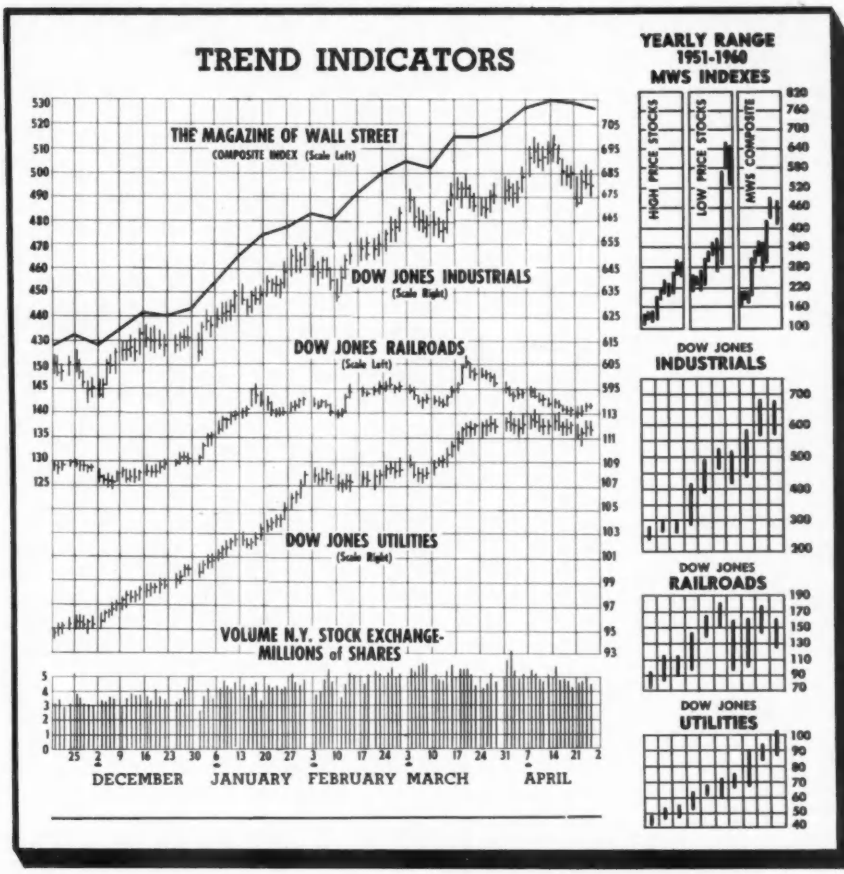
In our opinion, there is a basis at least for a consolidating phase; and possibly a test (if not a violation) of last Monday's low (672.66 for the industrial average).

Price action and trading volume — especially the latter — indicate that the

public's earlier enthusiasm for common stocks has cooled down considerably, and had begun to do so prior to the unpleasant Cuban news and prior to the market's further retreat over the past fortnight. The latter amounted to 15.08 points for the Dow industrials over the period.

►At the April 24 reaction low point, the industrial average was off slightly more than 24 points from the high, retracing a little less than a fifth of the prior rise of 130.67 points in about six months. Even in this modern market—given to protracted advances with smaller corrections than in the past — retracements of a fourth to a third cannot be ruled out.

► It is our impression, based on price action and on fragmentary information, that fund managers did not rush to buy stocks on the break last Monday; — that the Tuesday rally was due more to short-covering and buying by the public, — and that, on balance, the funds are now less aggressively bullish than in some time.



The Economic Picture

►There is no doubt that we are at the start of the business recovery which the market began to anticipate six months ago. Following a 3.7% February rise, in which increased defense bookings played an important part, manufacturers' new orders for durable goods rose a further 1% in March, according to the preliminary report of the Commerce Department. Sales also rose modestly.

► On a seasonally-adjusted basis, private home starts have risen for three consecutive months from the extremely low December level, and the report for April may well show another gain. March contracts for new residential building were about 6% above the low year-earlier level, and total contracts for all new building was up about 4%.

► Machine tool orders in March rose to the best level for the month in several years, leaving first-quarter bookings down 7% from a year ago, but up about 5.7% from the depressed 1960 fourth quarter.

► Now around an estimated 62% of capacity, steel output has risen gradually for six consecutive weeks, attaining the best level since May of 1960.

► Improved demand has developed for copper and copper-based fabrications, with some boost believed to be ahead in the 29-cent domestic price of the metal at the producers' level.

► Sales of new cars have improved modestly while remaining well under a year-ago, and used cars buying has increased.

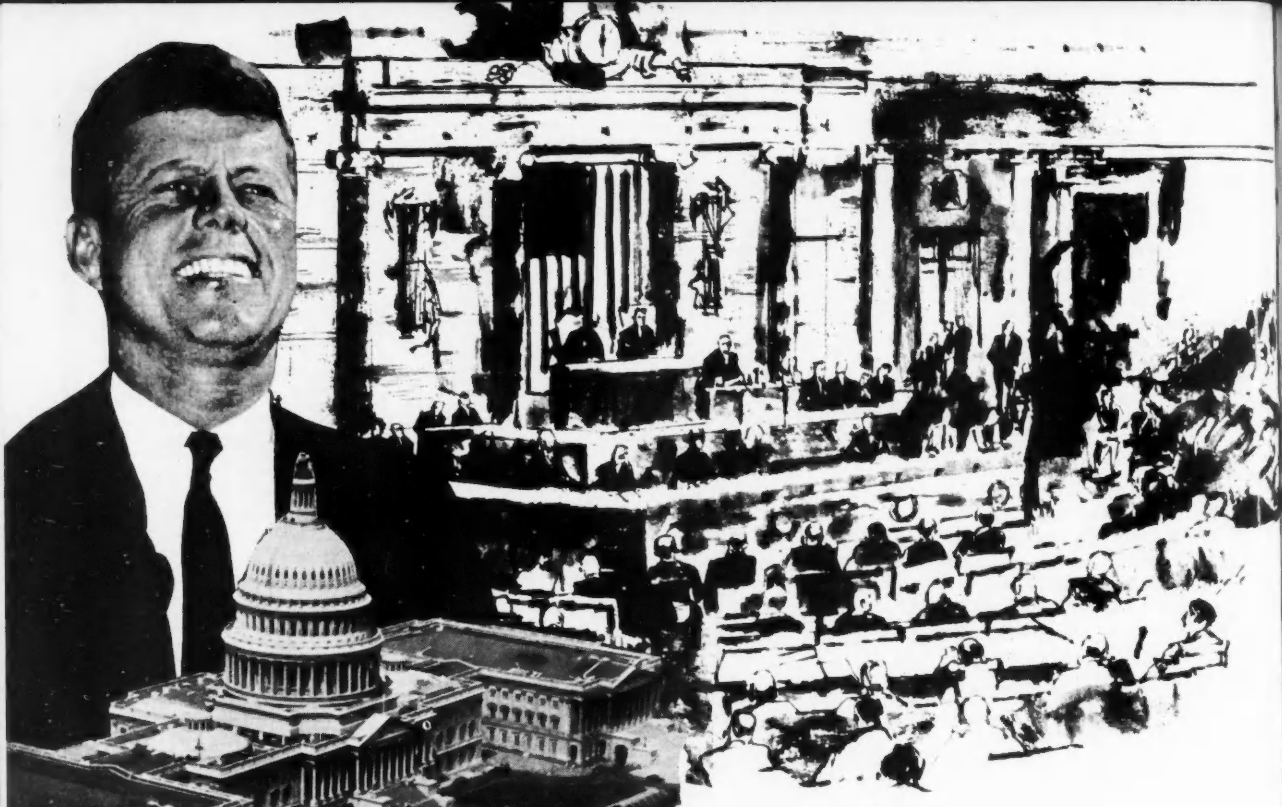
► With the stimulus of an early Easter eliminated, total retail sales differ little from the year-earlier level.

The Limiting Factors

However, business and business prospects are no better than the market has been betting on for some time. While a full recovery is likely in time, the evidence continues to suggest that it is unlikely to be rapid. At least for some time to come, we are unable to see basis for anything like a boom in private housing and/or consumer demand for durable goods, including automobiles. There is nothing to argue for expansion of business inventories beyond prudently-figured production and trade needs. In view of present excess industrial capacity, it seems unlikely that the tax concessions proposed by the Administration can induce more than a sluggish revival in capital outlays.

It is still pertinent to repeat that the market has over-discounted likely gains in business activity and profits for an extended period ahead, and that it has been exaggerated by "inflation talk."

And there is a new question. In view of the inept handling of the Cuban affair, following a campaign where much was said about the loss of world prestige under the previous Administration — will the initial general confidence in the "New Frontier" be maintained? We wonder. And we think there is increased basis for viewing medium-term market potentials with cautious reserve. — Monday, May 1.



THE NEWLY PROPOSED "PATCHES" ON OUR TAX STRUCTURE

— *That await Congressional action*

By PAUL J. MAYNARD

IF there ever was a time when our tax structure should be completely overhauled instead of merely patched, it is NOW—for a soundly conceived law would unquestionably produce more revenue for the government and wreak less hardship on the taxpayers.

It has been said in the past that labor's veto was responsible for the continuation of the capital gains tax, and we cannot help but wonder how much pressure from the Union camp is responsible for the new Administration's proposals, some of which are bound to aggravate the situation and produce unnecessary dissensions.

By letting reason assert itself, much can be accomplished that would produce gladly-given wholehearted cooperation instead of the lukewarm adherence of disgruntled citizenry.

Editor

ONE of the supporters in the House of Representatives of the 1894 income tax law is quoted as follows:

"The passage of this bill will mark the dawn of a brighter day, with more of sunshine, more of the songs of birds, more of that sweetest music, the laughter of children well fed, well clothed, well housed. Can we doubt that, in the brighter, happier days to come, good even-headed wholesome democracy shall be triumphant? God hasten the era of equality in taxation and in opportunity. And God prosper the Wilson bill, the first leaf in the generous book of reform in taxation, the promise of a brightening future for those whose genius and labor create the wealth of the land, and whose courage and patriotism are the only sure bulwark in the defense of the Republic."

Despite such flowery prediction of 67 years ago,

it is clear today that there are some problems left in life, not the least of them stemming from the income tax laws. Those who had expected a comprehensive program of sound amendments to our crazy-quilt Federal income tax structure, were disappointed by the Kennedy Administration's tax proposals. In effect, these proposals comprise more patchwork, only adding to the complexities and inequities of an already illogical and unplanned tax structure. For a comprehensive overhaul of our admittedly ill-adapted and incentive dulling system of Federal taxation we are advised—"wait until next year".

In essence, President Kennedy's tax proposals may be divided into the following principal component parts:

First. The provision for ***special tax credits,*** retroactive to January 1, 1961, for businesses which increase their investments in new plant and equipment. This so-called 'tax incentive plan" is expected to give businesses potential annual tax savings of about $1,700,000. This provision would permit reductions of these amounts: ► 6% of the new investment in excess of half a business' current annual depreciation deduction but not in excess of its full deduction on existing equipment, ► and 15% of new investment in excess of the deduction on existing equipment. A minimum tax credit of 10% of the first $5,000 of any new investment would be provided to help smaller concerns.

Second. In order to balance off or to recoup the revenue lost to the Treasury by these credits, the following proposals are made to close up so-called "loop-holes" in the existing law.

(a) ***Repeal of the $50 dividend exclusion*** and 4% dividends-received credit, concessions which were enacted into law in 1954 as an investment stimulating measure, and as a recognition of the basic inequity of double taxation of corporate earnings paid out as dividends. The repeal of this part of the law is estimated to produce $450 million of additional reserve.

(b) The imposition of a ***20% withholding tax on interest and dividends*** paid on corporate and government bonds, bank deposits and other types of investments. The 20% tax would also be withheld on mutual fund payments as well as corporate stock disbursements. This provision is estimated to yield about $600 million.

(c) ***A crack-down on expense accounts,*** tightening up allowances for entertainment, gifts, conventions, etc. This is estimated to increase tax yields by about $250 million.

(d) ***Termination of tax deferral for business abroad*** in economically advanced nations, a crack-down on business operating in "tax havens" and elimination of the tax advantages for Americans living or working in many foreign countries. These changes are estimated to raise Federal revenues by about $250 million a year when operating fully.

(e) A group of additional tightening measures which together might be expected to produce another $250 million. These include ***higher taxes*** (ordinary income tax rates rather than capital gains rates) from any profits made on the sale of depreciated property—● tighter rules on inventory valuation methods and tougher tax treatment of co-operatives and—● "consideration" of whether higher taxes should not be levied against mutual savings banks, savings and loans associations and mutual fire and casualty insurance companies.

In addition to these measures, the Administration's tax proposals urge extension of the present

HOW KENNEDY PLANS TO OFFSET LOSS OF REVENUES RESULTING FROM NEW DEPRECIATION ALLOWANCES TO BUSINESS

TO STIMULATE MODERNIZATION OF INDUSTRY:

Give companies tax reductions to offset part of cost of investment in new plant and equipment.

ESTIMATED LOSS OF REVENUE $1.7 billion

TO RAISE NEW REVENUES AND ELIMINATE TAX LOOPHOLES:	ESTIMATED GAIN IN REVENUE
Withhold taxes on dividends and interest payments on most kinds of savings accounts	$600 million
Repeal dividend credit and dividend exemption on individual's income tax	$450 million
Tighten the rules on business expense accounts	$250 million
Remove tax privileges on income earned abroad	$250 million
Raise taxes on gains from sale of plant and equipment	$200 million
TOTAL ESTIMATED GAIN IN REVENUES	**$1.75 billion**

52% corporate income tax rate and present excise rates on liquor, cigarets, autos, phone bills and passenger transportation beyond their scheduled expiration date of July 1, 1961. ● Also recommended is an extension of the 2¢ a gallon tax on aviation fuel to jet fuel, and strengthening of the enforcement staff of the Internal Revenue Bureau.

● With one hand the Government gives tax credits estimated to provide tax reductions to businesses of about $1.7 billion, and with the other hand it increases its take by means of the foregoing measures by approximately $1.75 billion. **The principal question to be answered is whether the incentives granted under the proposed system of tax credits for new construction expenditures would be strong enough to outweigh the removal of incentives provided for in the tax-increasing measures.**

Soaking the Investor?

● The recommendation to repeal the $50 dividend exclusion and the 4% dividend received credit would appear to be the unkindest and unfairest cut of all for the small investor who is being asked to invest his money to "get America moving again". The United States Government is a majority shareholder in the profits of every substantial American Corporation.

On taxation of undistributed corporate profits, the general U. S. rate of 52% applies. This is higher than in any other industrial nation. On corporate profits paid out in dividends the compounding of corporate and personal taxation gives a 62.6% effective tax rate for a person in the $4,000 to $6,000 tax bracket, and the top rate goes all the way up to 93.8%. These calculations are after allowance for the limited 4% dividends received credit. Other nations go much further in crediting to shareholders taxes paid by corporations.

After many years of effort the $50 dividend exclusion and the 4% dividend received credit were finally incorporated in the 1954 Revenue Act as a small token of recognition of the basic unfairness involved in taxing corporate earnings twice. **Now to term this minor recognition of the basic inequity of double taxation of investors a "loophole" and ask for its removal is demagogic to say the least. Such a recommendation caters to the ill-informed masses whose favorite slogan is "soak-the-rich".**

The psychological effect of turning the clock back and removing a hard-won incentive to investors, at the same time that a dividend withholding plan is adopted, would offset a major part of any gains developed by the tax credits proposed for expanding businesses.

How Much Stimulation For Business?

● The proposed tax credit plan with respect to allowances for expenditures for new plants may be regarded as a move in the right direction. However, it is difficult to understand why a simpler plan for liberalization of depreciation allowances for tax purposes would not be a more effective method by which to stimulate plant expansion programs. In this connection, it is suggested that next year a more comprehensive plan may be proposed which conceivably could include liberalization of depreciation allowances on a broader basis. At least the tax incentive plan which has been proposed does recognize the importance of liberalized depreciation because of its influence on investment which in turn is the core of the growth process. **It is worthy of note that this fact has long been recognized by many governments abroad, and even socialist governments have pursued liberal policies in the matter of depreciation charges.**

● It would appear that the companies with large plant investments, particularly heavy goods industries and public utility companies would be the principal beneficiaries of the tax incentive proposal with reference to new plant expenditures.

The Effect of Withholding Taxes at Source

● The proposal to withhold income taxes on interest and dividends payable to investors on their security investments, while perhaps a necessary measure, might well have many repercussions not immediately perceived. The work of paying agents, whether banks or brokerage houses would be greatly increased with a consequent need for higher fees and perhaps more electronic tabulating equipment. This would add substantially to the work of many corporations, making them collectors of more taxes in addition to the gigantic tax-gathering work in which they are already engaged. In addition to withholding taxes on employee salaries, collecting social security and sales taxes and excise taxes and keeping records of all these collections, there would be added the job of withholding taxes on interest and dividend payments. At the same time, the incomes of many small investors, especially the older people with little or no tax liability, living off their investments would be adversely affected until such time as the tax withheld might be refunded. **If the dividend and interest withholding plans are to be adopted, it would appear that some recognition should be given to the services rendered in the form of tax collecting and accounting activities, and that provision be made for exemptions or prompt refunds where no tax is due.**

Pros and Cons of that Business Expense Account

● A severe crackdown on business expense allowances may be justified. However, a spartan limitation of per diem business expenses to the figure of $24 per day which was indicated as desirable in the tax message, might well have disastrous consequences for many businesses dependent upon expense account spending. The convention business, hotels (especially the top quality ones), first class fares on planes and ships, theater ticket sales and the liquor business all would soon feel the pangs of depression if expense account spending were to be seriously curtailed. It has been indicated that hotel owners associations and owners of cabarets, restaurants, night clubs, theaters and travel agencies already are making themselves heard in opposition to tax plans which would adversely affect their business. Just how successful they will be in obtaining modifications or amendments to the proposals remains to be seen. It may reasonably be asked whether the inequities in our steeply progressive income tax structure have not induced expense account abuses as a method of adaptation to a basically unsound system of taxation.

Personal Income

The Administration's tax proposals are noteworthy for what they omit as well as for what they include. Omitted for example, is any reference to broadening the base of personal income taxes or reducing the maximum *(Please turn to page 227)*

PART ONE of a Series:

FIRST QUARTER EARNINGS REPORTS
Tell Only Part of 1961 Story

— What the figures show for the various companies

By WARD GATES

FIRST quarter earnings of American corporations are following a typical recession pattern. The reports, now appearing in rapidly growing numbers, show a few startlingly good gains, some divergent pattern within given industries, and a broad sweep of declines ranging from the minute to the enormous.

What is perhaps most significant is the persistence with which certain companies constantly show up in the increase column despite the general trend throughout the economy. **International Business Machines** is the best example, although not the only one. Each year for almost a decade earnings have progressed regardless of conditions that prevailed in the economy, and 1961 started out the same way. **American Telephone & Telegraph** is in the same category, and among the specialty companies, **Brunswick** and **American Machine & Foundry** continue to benefit from the boom in leisure activities.

In total, however, the earnings performance of American industry was poor in the period just ended. Declines average a little over 6%, but the typical drop is more severe. The average itself is held up by the good results of a few companies such as those cited above. If our initial reports reflect an accurate cross section of those that will flow out over the next few weeks, combined earnings will run at an annual rate of about $39 million before taxes, and probably about $17 million after Uncle Sam's tax bite. Hence, retained earnings after payment of dividends will probably be the smallest in a decade.

Profit Margins Decline

As in most recessions, profit margins slipped drastically for most companies. Even where sales advanced (despite the poor level of overall demand), net income slipped because of the high cost of doing business at a time when competitive fever ran high.

General Electric, for example, managed to raise its revenues to $993 million compared to $957 in the same period a year ago, but earnings declined 20% to 48¢ a share from 60¢. Several factors contributed to the decline, including the carry over costs of the strike that hit the company in late 1960, but the principal damage was caused by price weakness and excess capacity.

Appliances, especially, were troublesome, while prices for heavy electrical equipment slipped badly

Quarterly Comparison of Sales and Earnings

	1961 1st Quarter Net Sales (mil.)	1961 1st Quarter Net Per Share	1960 4th Quarter Net Sales (mil.)	1960 4th Quarter Net Per Share	1960 3rd Quarter Net Sales (mil.)	1960 3rd Quarter Net Per Share	1960 2nd Quarter Net Sales (mil.)	1960 2nd Quarter Net Per Share	1960 1s Quarter Net Sales (mil.)	1960 1s Quarter Net Per Share
Allied Chemical	$168.5	$ .47	$177.2	$ .49	$187.5	$ .53	$216.8	$ .87	$184.1	$ .68
Aluminum Co. of Amer.	201.6	.36	203.6	.43	214.5	.39	221.8	.40	221.1	.56
American Cyanamid	148.1	.57	136.3	.46	136.8	.40	145.4	.56	159.7	.78
American Hospital Supply	27.1	.42	26.6	.44	28.0	.40	24.0	.42	24.5	.42
American Machine & Foundry	114.6	.93	115.9	.96	103.7	.75	71.7	.54	74.9	.87
American Rad. & S. S.	107.2	.11	117.6:	.32	127.3	.32	122.0	.19	113.2	.28
American Steel Foundries	23.8	.30	28.5	.55	28.2	.63	32.1	.81	31.5	.68
Blaw-Knox	38.9	.11	53.8	.21	47.2	.55	43.9	.59	44.8	.84
Borden Co.	238.6	.56	242.8	.61	241.7	.74	241.4	.80	230.0	.55
Caterpillar Tractor	168.1	.42	144.7	.36	185.8	.45	202.1	.42	183.2	.32
Celanese Corp. of Amer.	62.0	.32	62.1	.56	64.5	.46	70.7	.55	66.7	.50
Consolidation Coal	57.8	.37	64.0	.73	55.0	.30	63.3	.51	75.6	.55
Corning Glass	48.3[1]	.71[1]	49.4[1]	.65[1]	66.0[2]	.77[2]	48.2[1]	.94[1]	51.1[1]	.87[1]
Crown Zellerback	133.2	.58	135.0	.66	143.0	.73	143.5	.78	132.2	.64
Douglas Aircraft	204.8	.45	315.0	.64	292.4	d3.43	314.9	d.48	251.5	d1.82
Dow Chemical	182.4	.42	206.7	.53	202.1	.68	205.4	.77	188.9	.59
Du Pont	513.0	1.85	521.8	1.81	537.8	1.96	568.6	2.21	535.0	2.10
General Electric	992.6	.48	1,144.3	.34	1,030.5	.65	1,065.2	.66	957.4	.60
General Portland Cement	11.7	.24	13.2	.37	16.5	.59	17.3	.64	11.7	.28
Gillette	62.1	1.07	53.3	1.12	61.2	1.01	58.1	.94	51.9	.90
Hercules Powder	85.9	.61	99.5	.74	88.8	.85	87.0	.85	79.6	.64
Ideal Cement	21.9	.23	32.6	.22	31.2	.26	16.4	.23	18.0	.21
Industrial Rayon	10.0	.18	11.1	d.50	11.1	d.54	11.9	d.49	13.0	d.27
International Business Mach.	389.0	2.67	395.5	2.67	345.9	2.32	354.7	2.27	339.8	1.92
Johnson & Johnson	79.7	.60	71.0	.44	79.0	.85	76.1	.63	79.2	.71
Johns-Manville	69.9	.25	91.2	.63	99.6	.90	99.5	1.04	74.8	.55
Joy Mfg.	23.2	.36	24.7	.54	26.7	1.15	25.4	.53	27.3	.74

N.A.—Not available.
d—Deficit.
[1]—12 weeks.
[2]—16 weeks.
[3]—Estimated.
[4]—28 weeks.

as they always do in the low end of the utility expansion cycle. Whether the price-fixing scandals also contributed to price disruption is difficult to say, but certainly it did not help. The real test on this score will come a year from now when utilities begin a new cycle of capacity expansion. If prices remain low at that time, the damage can be severe.

GE did not cover its dividend in the first quarter, but the company's excellent financial conditions should lead to continued payments. Certainly any pick-up as the year progresses should make up the slim difference between payment and earnings coverage.

The smaller electrical and electronics firms suffered the same fate as GE.

Raytheon managed to increase its revenues, selling $138 million worth of products in the first quarter of 1961 compared with $135 million a year earlier. However, price weakness and lower volume in many commercial products took their toll on earnings. Profits dropped to 33¢ per share from 56¢ in 1960's first period, marking the second straight year of decline.

Raytheon can look ahead to a better year from their government business. Backlog of defense orders stood at $320 million at the end of March, up from $288 million a year earlier. However, persistent problems in the consumer markets, and rising research expenditures will probably keep earnings for the full year well below the 1960 figures.

Highlights Of Better Performers

As usual, a number of important companies ran against the tide. **IBM**, mentioned earlier, set a new first quarter earnings record of $2.67 a share, up from $1.92 in last year's first period. The company warned however, that the experience this year was heavily weighted with outright sales of equipment rather than rentals, so that the picture is not quite as bright as it appears on the surface. Nevertheless, for one reason or another IBM manages to better itself each year. Of course, the rate of growth will have to slow down, but abroad it is continuing at the kind of rapid pace that characterized its domestic operations all through the Fifties.

Aside from **IBM** and **American Telephone,** most of the companies that did better, fall in two classes. Either they have a special niche someplace, such as AMF and Brunswick in the bowling and leisure fields, or they are tied so closely to consumer spending that their revenues seldom fall off sharply.

In the latter category, **Gillette** continues its exceptional showing of the last few years. The success of its "super blue blade" has become almost legendary, and is only now spurring other companies to develop competitive products. Gillette's sales rose to $62.1 million in the opening period of the year from $52 million in 1960. Earnings advanced to $1.07 from 94¢ raising the possibility of another

Quarterly Comparison of Sales and Earnings — (Continued)

	1961		1960							
	1st Quarter		4th Quarter		3rd Quarter		2nd Quarter		1s Quarter	
	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share	Net Sales (mil.)	Net Per Share
Lehigh Portland Cement	12.2	d	21.8	.01	30.3	.91	28.4	.79	14.0	.12
Libbey-Owens-Ford Glass	N. A.	.69	N. A.	1.15	N. A.	.60	N. A.	1.12	N. A.	1.31
Lockheed Aircraft	320.0[3]	.54[3]	369.9	1.04	305.2	.74	317.2	d7.26	339.8	.38
Metro-Goldwyn-Mayer	45.6[2]	1.79[2]	65.1	1.47[4]	32.0[1]	1.43[1]	30.1[1]	.87[1]	37.5[2]	.74[2]
Minneapolis Honeywell Reg.	103.1	.61	113.3	1.12	107.0	.91	105.3	.83	100.4	.88
Monsanto Chemical	219.3	.57	253.6	.48	204.7	.56	219.6	.75	226.3	.70
National Dairy Products	44C.9	.74	416.3	.93	416.9	.88	4.15.3	1.02	4.8.5	.76
National Gypsum	41.5	.42	52.7	.68	66.8	1.25	58.8	1.12	45.1	.60
National Lead	114.5	.77	121.2	1.03	131.5	1.00	137.3	1.08	132.5	.99
Otis Elevator	N. A.	.55	N. A.	1.03	N. A.	.52	N. A.	.65	N. A.	.74
Owens-Illinois Glass	143.2	1.09	130.3	.78	151.5	1.08	148.6	1.28	130.5	.96
Parke, Davis & Co.	47.5	.39	48.8	.53	52.2	.50	45.6	.38	53.4	.64
Pfizer (Chas.) & Co.	72.1	.45	67.7	.44	64.8	.35	68.7	.43	68.7	.43
Phelps Dodge	N.A.	.90	74.7	1.00	69.5	.91	82.3	1.29	60.2	.48
Polaroid Corp.	14.0	.05	40.4	.80	19.0	.41	19.7	.47	20.1	.58
Rayonier	30.7	.27	28.8	.23	30.6	.37	35.4	.57	34.1	.47
Raytheon Co.	138.1	.33	137.1	.51	125.2	.50	142.8	.52	134.7	.56
Revlon Inc.	32.9	1.03	41.3	1.32	32.1	1.00	33.0	1.03	29.8	.98
Rexall Drug & Chemical	58.7	.48	63.9	.32	66.3	.69	55.8	.50	56.5	.42
Rohm & Haas	51.8	3.46	49.4	3.46	52.5	4.15	59.9	5.64	56.2	5.12
Schering Corp.	18.2[3]	.48[3]	22.0	.65	22.4	.77	20.4	.29	21.7	.65
Scott Paper	79.4	.81	78.8	.95	76.6	.79	77.6	.83	80.2	.83
Texas Gulf Sulphur	13.3	.27	14.2	.32	15.6	.34	16.0	.34	13.1	.27
Texas Instruments	58.9	.95	62.6	1.00	54.0	.91	59.8	1.01	56.2	.99
Thiokol Chemical	41.9	.22	47.1	.18	41.0	.20	41.3	.20	42.0	.18
Union Bag-Camp Paper	51.9	.51	48.6	.52	53.1	.56	57.8	.67	53.3	.64

N.A.—Not available.
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dividend increase again this year.

Cigarette companies enjoyed the same experience. Despite the constant threat of adverse cancer news, cigarette sales continue to rise each year, and the companies continue to prosper. **R. J. Reynolds** remains the champion in the field with higher sales and better profits, although the official figures have not yet been released.

Phillip Morris, however, is probably typical of the group. The company's sales rose less than 4%, but profit margins expanded enough to lead to a 5% increase in net income. Rising cigarette sales helped the picture, but Philip Morris's intelligent diversification program is also beginning to pay off.

AMF and **Brunswick,** the special companies mentioned so frequently on these pages continue to ride the bowling boom. Brunswick's final figures have not yet been released, but AMF's advanced to 93¢ a share from 87¢ a year ago. AMF's performance is encouraging since much of its business is in other fields more closely tied to general economic activity. Revenues from leased bowling machines however, continue to rise, lending a stability to earnings that must be the envy of many other capital goods producers.

Oddly enough, another company, **Otis Elevator,** can attribute its earnings decline to bowling. The reason is simply that last year Brunswick cancelled its contracts with Otis for the production of the machines when it decided to do the manufacturing itself. The end of the contract put a big dent in Otis' operations, but this highly efficient company still earned 55¢ per share against 74¢ last year, and estimated that full year results will not be more than 10% or 15% behind 1960 earnings.

The company's elevator backlog is excellent, and arrangements have been made to construct bowling machines for Bowl-mor, the biggest of the newcomers into the automatic pinsetter field.

A Few Pleasant Surprises

In some cases, earnings betterment came from unexpected quarters. Copper companies, especially those with predominantly domestic operations scored good recoveries in the opening quarter.

Phelps Dodge, second biggest domestic producer benefited from favorable demand, the better price structure resulting from troubles in Latin American and African production, as well as internal efficiencies. Earnings almost doubled rising to 90¢ a share from only 48¢ a year ago. Results were still below the $1.29 earned in the first quarter of 1959, but in view of the general recession, this year's showing is exceptional. The improvement stems from heavy shipments to the booming economies of Japan and those of Europe. Labor difficulties in Chile and Africa have given American copper a break due to its reliability, especially for countries where business is booming.

In the aircraft industry, there were also a few

pleasant turn-arounds. **Douglas** has finally finished writing off its enormous investments in jet airliners and swung into the profit column from a deficit last year, despite a drop in sales. Revenues slipped to $205 million from $252 million a year ago, but net income reached 45¢ per share from a $1.82 per share deficit last year.

Earnings will improve for the rest of the year, but for the long run there is the troublesome factor of declining order backlogs. As of February 28, Douglas had an $879 million backlog, down from $1.4 billion a year earlier. Moreover, the delivery of commercial jets has been slowing down, so that the backlog relating to defense business has risen sharply to 73% from only 52% a year ago. In other words, the more lucrative civilian plane business is sliding off.

Some Industries Hard Hit

There are other scattered reports of companies that did better in 1961, such as **Revlon, Rexall** and **Metro-Goldwyn Mayer**, but usually the companies fall in special categories. In major industries, the picture was generally more bleak. The **Steel, Auto** and **Tire and Rubber** groups are covered elsewhere in this issue, and require no further mention here other than to note the virtual unanimity of declines in each industry.

The chemicals follow the same pattern. Even **Allied Chemical,** which has managed to out-perform the industry in most recent years could not buck the trend. Sales fell sharply and earnings declined to 47¢ per share from 68¢ in the opening period a year ago. However, by mid-March, Allied was able to report a substantial pickup in volume, indicating that the second quarter experience will be a happier one.

The better operating rate of the steel industry is helping Allied with its by-product lines at just the time when nitrogen products are needed for the spring planting in agricultural areas. Part of Allied's problem late last year and in the first quarter was the steel operating rate which cut off its source of residual materials from the steelmaking process.

Du Pont also saw its sales decline by about $22 million, and earnings dropped to $1.85 from $2.10 in the same period a year ago. Once again, however, the dividend from General Motors lent an appearance of stability that was not necessarily indicative of du Pont's actual operations.

Management remains optimistic that earnings for the full year will top last year's $8.10 per share, and is basing its hopes on an end to the recession in the second quarter. In view of the relatively small drop in the opening period, a small increase for the year certainly is a possibility. We would not count on it however, although dividends will be adequately covered.

Monsanto also had profit margin troubles as well as lower sales. Revenues dropped modestly to $219 million from $226 million, but profits slid to 57¢ a share from 70¢ in the first quarter of 1960. **Dow Chemical,** hit by the slowdown in the industries it serves, showed similar results. Sales backed off just a bit, but net income declined about 20% to 42¢ per share from 59¢ a year ago.

Hercules Powder scored about the best in the industry, in line with its long record of highly efficient operations. Earnings declined, but the drop was a minuscule 3¢ per share from the 64¢ earned a year ago.

Builders Decline

The decline in homebuilding which spilled over into the first quarter, and the slowdown in construction projects hurt the earnings of the building material and cement companies.

Johns-Manville suffered an across-the-board drop in demand for its products which hit profit margins harder than sales. Revenues backed off only $5 million, but weaker prices led to a severe drop in earnings to only 25¢ a share from 55¢ a year ago. March sales began to show improvement however, indicating that second quarter results will be better.

National Lead managed to hold its profit margins in line but the drop in sales still led to net income of 77¢ a share compared with 99¢ last year. **American Radiator** however, was more typical, suffering a drastic decline in earnings to 11¢ from 28¢ despite a relatively mild decline in sales figures.

The cement industry is one of the few with mixed results. **General Portland** suffered a small decline in net, earning 24¢ against 28¢ in the first 1960 period. **Lehigh,** however, slumped into the red from a 12¢ profit last year. **Ideal Cement,** on the other hand, profiting from good demand for construction materials in its area, managed to raise its earnings 2¢ per share.

The construction slowdown continued, but better demand for farm products helped **Caterpillar Tractor** reverse its declining trend. Sales declined, but a more profitable product mix led to 42¢ per share in earnings, up from only 32¢ a year earlier. As the year progresses Caterpillar should continue to improve its position.

Lower Earnings, Higher Hopes

One of the most common aspects of the corporate reports coming out now is the expression of confidence that the balance of the year will be better despite the poor showing of the first quarter. Certainly, if the recession has hit bottom there is good reason to believe that the optimism is justified. Companies closely tied to the steel industry, for example, were bound to have a hard time early this year. As the operating rate improves, so should the earnings of the steel industry satellites.

Blaw-Knox, a major producer of rolling mills has a good backlog of mill orders, but its bread-and-butter business of rollers, ladles, etc., came to a virtual standstill in the first quarter. Earnings dropped precipitously to 11¢ per share from 84¢ a year ago. However, as steel mill operations improve, purchases of Blaw Knox products will have to pick up.

A better atmosphere for capital spending later in the year, should also lead to improvement for **Joy Manufacturing,** so that the year should produce better results than the first quarter's 36¢ per share would indicate.

On the other hand, aluminum companies, despite their ever-present high hopes, may be in for another disappointing year unless increases can be made to stick.

Alcoa continued its downtrend in earnings in the first quarter, slipping to 36¢ per share from 56¢ in the opening quarter a year ago. Part of the problem, of course, is *(Please turn to page 227)*

The extent to which THE QUALITY OF LEADERSHIP in the Stock Market has Deteriorated

By R. DE MILLE WYCKOFF

—A rare and most interesting picture of the forces back of today's stock market— . . . and a definite answer to the questions being asked on the differences and similarities between 1929 and today.

SINCE October 1960 the stock market has been confounding both expert and amateur alike by the rapidity and steadiness of its rise. Recently, the upward drive topped the previous peak of the Dow Jones Industrial Average, established in January 1960. Yet despite the fact that stocks rose in the face of poor business news, recurring international crises and a national election, there is an uncomfortable feeling among many of the experts that the current performance is not healthy—or not as convincing as the previous upward sweeps of the post war era.

The reasons for the skepticism are not hard to find. In late 1959 and early January 1960, the list of market leaders read like a "Who's Who" of American industry. U.S. Steel was selling at 103, Anaconda at 68, Dow Chemical at 99, Chrysler at 71 and General Motors at 56. A glance at the accompanying tables reveals other high quality companies that led the parade at that time, and also shows their 1961 high prices to date. The comparison is revealing. While the market has boomed this year, such blue chip, representative companies as du Pont, Colgate, Westinghouse, and those cited above remain well below their previous highs.

In their place, incidentally, are such companies as American Hospital Supply, Avnet, Haveg, Korvette and Revlon, to name just a few. To the careful observer this lower quality leadership is a sign of deterioration of the market's structure and of impending weakness in the not too distant future.

In classifying these companies as of lower quality, there is no reflection on either their management, their products or their earnings records.

Rather, this designation simply means they are not sufficiently seasoned because they are either too new, too small or too specialized to be classified as blue chip investment issues.

To illustrate: Haveg, at last count was in the portfolios of only seven institutions; Korvette enjoyed the same amount of professional investor support; and American Hospital Supply was owned by eight institutions. By contrast, U.S. Steel, after a year of heavy selling by institutions is still in over 500 major portfolios; du Pont is in almost 700 institutional accounts; and even Chrysler, despite its poor recent record and its managerial troubles, is held by over 60 institutions.

Yet the market's leadership has swung from the latter group to the former. Under the circumstances the argument that the quality of leadership has deteriorated cannot be challenged, despite the fact that this year's leaders also include several first rate companies such as American Telephone and International Tel. & Tel.

No General Slide

The picture of market leadership explains the recent hesitation in the market's rise. Speculative fervor can carry the market just so far, but sooner or later there must be full scale institutional support for the rise. To same extent the support has come from the fact that various institutions have included small amounts of the high-flying issues in their portfolios. But the heavy support for the seasoned investment issues has been lacking—and without that it is unlikely that a general market rise can continue unabated.

However, the end of the rise does not necessarily mean an imminent overall collapse of market values. Nor need the poor quality of today's market rekindle fears of another 1929. For these reasons, let's investigate the structure of both the market and the economy more closely.

► ***The American economy today*** is a far cry from the hectic affair of the Twenties. Whether it is better or worse is not the basic issue in this story, but the changes between now and then are so important that they cannot be minimized.

● *First,* for various reasons, including consumer income and buying power, we have a far more stable economy today—with Government playing its part in a big way in maintaining a high level economy.

● In 1929, for instance, government purchases of goods and services accounted for less than 8% of Gross National Product. Today it is over 20%. This means that more than $100 billion is being poured into the economy annually by the various arms of government—and this amount does not vary greatly with changes in the business picture.

***Secondly,* most of our major companies have grown in thirty years from lusty adolescence to mature manhood. In other words, their place in the sun is established; and in general each has spread its wings far enough to be a major factor in several industries, rather than only one. In addition, the financial condition of our major companies is unassailable—so that they can weather much more severe storms than anything they had to face in the post-war era.**

► Furthermore, and this is most important, the economy has become so big, so wealthy and so powerful, that it has proved its ability to survive even when major sectors are depressed.

Active Market Leaders 1958-1960

	Low 1958-59	High Early 1960	1961 High
American Motors	$ 8	$ 30½	$ 21¼
Anaconda Co.	40	68⅜	60
Armco Steel	39¾	77½	75¼
Bendix Corp.	44½	74½	72
Bethlehem Steel	36¼	57¼	49⅜
Borg-Warner	25⅝	48½	43⅝
Chrysler	44	71⅞	48
Colgate-Palmolive	16	41¼	37⅜
Dow Chemical	52⅛	99⅝	78
Du Pont	172⅛	266½	216½
Eastman Kodak	48⅝	136¼	119¾
General Electric	57	99⅞	74
General Motors	33¾	55⅞	47¾
Goodrich (B.F.)	53½	103¼	60⅞
Minneapolis Honeywell	76	178¾	170¾
Minnesota Mining & Mfg.	26½	88	87
Monsanto Chemical	29⅞	55⅞	51
Owens-Ill. Glass	59	116	104
U. S. Gypsum	65½	116½	115
U. S. Steel	51⅝	103¼	90¼
Westinghouse Electric	27¾	57	50
Youngstown Sheet & Tube	68½	138½	111¾

● Thus in 1956-57 it boomed while the auto industry stagnated; ● it has easily weathered two major steel strikes in the last five years; ● and several cycles of lower construction— ● lower capital spending—● severe inventory liquidation, ● and relatively high unemployment.

In effect, the business cycle has become a rotating affair, affecting some industries, at one time, and others the next, but never all at once. A few years ago they were calling this pattern a "rolling adjustment", and it is an apt phrase.

From the investors point of view it is even more significant, since it has been clearly reflected in the performance of the stock market during at least five years. The market has boomed, but within its deeper structure there has been a series of industry advances and declines—a topping out of individual groups in rotation that has gone unnoticed except by those who analyze the market in depth.

An article calling attention to this rotation of interest in stock groups appeared in the October 22, 1960 issue of The Magazine of Wall Street, "The Extent of The Rolling Market Adjustment in the 10 Key Groups".

► Airline and metal fabricating stocks scored their highs as long ago as 1955. During all of the ensuing bull market they remained below their previous highs, retarded by their poorer earnings prospects and financial difficulties.

In 1956, the railroads, machine tool companies, aluminums, cements, copper and paper companies scored their highs. In each case, the topping out was an accurate forecast of things to come. The aluminums got bogged down in overcapacity; the railroads in fierce competition and financial problems; the papers in overcapacity; and the machine tool stocks felt the impact of the enormous investment in automatic machinery their customers insisted on.

In 1957—it was the turn of the aircraft companies, as the plane procurement program was curtailed in the wake of Sputnik; the oil companies because of the post-Suez letdown, and the recogni-

Active Market Leaders 1960-1961

	Low September 1960	High 1961	Recent Price 1961
American Hospital Supply	$44½	$104	$ 99
American Machine & Fdry	58	126⅝	115
American Photocopy	64	136	125
Avnet Electronics	17⅜	44⅞	39
Beckman Instruments	83⅝	141	140
Brunswick Corp.	33¾	74⅞	62
General Precision Instruments	45½	75⅝	65
Haveg Industries	66¾	125¾	121
Hershey Chocolate	93	154½	145
International Tel. & Tel.	36	60⅞	57
Johnson & Johnson	57½	110½	90
Kerr McGee Oil	39¾	120	111
Korvette (E.J.) Inc.	21	68½	61
Litton Industries	68⅛	137	133
Lockheed Aircraft	23¼	45⅝	42
Metro-Goldwyn-Mayer	34½	67¾	62
Northrop Corp.	34¼	67⅞	61
Perkin-Elmer Corp.	36½	83½	77
Revlon Inc.	55⅛	141¾	136
Texas Gulf Producing	21⅛	41⅞	36
Varian Associates	41⅛	75¼	71
Vendo Co.	32¼	77¾	70

tion that the industry had lost some of its growth characteristics.

1958 saw the high for natural gas stocks, construction companies and machinery manufacturers. Again the reasons stemmed from changes in the fortunes of these particular industries despite the health of the general economy.

► **In 1959**—the steels and drugs topped out, and 1960 witnessed the highest prices for auto shares.

The picture seems clear. The stock market is not a single entity that goes up or down all at once, but rather a microcosmic picture of the total economy reflecting the divergent trends from industry to industry and from region to region.

Thus, although the market acts tired, and will probably suffer some setbacks and remain unexciting for quite a while, there is little reason to suspect that the entire structure will collapse at once. Rather we will probably see a continuation of the rotating pattern described above, with the overall level of activity marking time at a more reasonable level until some of our major industries move into new growth cycles.

Another 1929?

There are many who express the belief that the situation today, aggravated by the world uncertainty, could lead to another 1929 in the stock market, especially since public gambling in the market is reaching new heights, despite the labored nature of the recovery and the still cloudy picture of corporate earnings.

► Let's get down to cases and check to see whether a parallel can be drawn between 1929 and today. Volume on the New York Stock Exchange this year is running at just about the same rate as 1929. **However there are more than six times as many shares traded on the Exchange today.**

To get an idea of what this comparison means, daily volume in 1961 would have to be 24 million shares in order to approach the magnitudes of 1929 —and a day approximating black Thursday would have to see transactions of over 70 million shares. Obviously we are nowhere near this kind of situation.

► In addition, the average speculator in 1929 was in hock up to his ears, since buying was done at an average 20% margin, and as low as 10%. Today's buyer must put up at least 70% and the vast majority put up 100%, and take their shares home for safekeeping.

The Customer—Significantly, customers' debits have been on the rise in brokerage houses in the last few months, *but* their free credit balances (the money brokers are merely holding uninvested for their clients) are at an all-time high. The little investor, in other words, is leery, and is not committing all of his funds to the stock market. **Further proof of this comes from the persistent net selling, not buying, of odd-lotters all through the recent rise.**

Institutions—The large role played by institutions in the stock market also militates against a sharp collapse. Institutions are run by professional investors who do not usually run for cover at the first sign of trouble. **Moreover, the huge amounts of stock they own makes it a virtual impossibility for them to sell when stock prices are declining. They can only hope to unload when the public is buying eagerly.**

Of course, there is the fear that panicky mutual fund holders will insist on redemption of their shares and force the Funds to sell regardless of their better judgment or the poor price levels. The only real answer would be the quality of judgment in the financial community, which would be bound to step into the breach to avoid a debacle, for its repercussions would be wide-spread. Besides, a sharp decline would be used by other institutions, such as pension funds, closed-end trusts and the common-trust-funds of banks, as an opportunity to buy and average the cost of their own holdings. This would also be true of professional investors, who are likely to be out bargain-hunting during a period of forced liquidation of the mutual funds.

Thus, both the structure of the economy and that of the market cast doubts on a repetition of the 1929 experience. More important, perhaps is the simple fact that if there should be a collapse at all comparable with the 1929 debacle, it will come for reasons that cannot be discovered merely by comparing today and yesteryear, but for reasons peculiar to the situation at the time.

Today's Stocks Offer High Quality

A look at the recent market leadership in relation to the market as a whole, is reassuring on this score. Today's high-flyers are as far out of line as the golden era stocks of 1929. Polaroid, Avnet and Ampex are clearly in the stratosphere and their prices are completely devoid of rational justification. But even if they should plummet, it will not mean the end of the world.

● The broad list of good quality stocks are firmly held in good hands and offer values greatly sought after by investors. They may be overvalued too, but the quality of their earnings and the stability of their dividend payments is so far superior to the broad spectrum of industrials in 1929 that there is really no comparison. U.S. Steel may not be worth 20 times its earnings, but when it can earn and pay its dividend through lean years and fat, it is certainly worth more than *(Please turn to page 228)*

Inside Washington

BY "VERITAS"

DEBT limit hike is in the offing, but when it will be proposed to Congress is problematical—probably not until next Session. Now statutorily pegged at $293 billion, it is less than $5 billion greater than present Treasury obligations of $288.4 billion. April 15 tax payments are expected to ease the situation for some few months, but stepped-up Defense expenditures, coupled with New Frontier cash demands, now total around $12.7 billion, a figure that can puncture the ceiling—especially if revenues are not up to expectations. In the Administration's thinking is a $300 billion ceiling, but it will not be requested until there is a close study of revenue prospects for the next several months. In the meanwhile, Congress—including some of the liberals—awakens to the fact that inflation (traceable to the Federal debt) is all too rapidly eroding the dollar's value.

WASHINGTON SEES:

A propaganda-weakened U.S. and Free World position has evolved from (1) the abortive Cuban invasion (actively supported by this country) and, (2) French President de Gaulle's troubles in Algeria.

There is no question on our loss of prestige, as a result of the Cuban affair. Of the moment, we have only two firm supporters South of the Rio Grande—Betancourt of Venezuela, and Frondizi of Argentina. They, however, do not have the full support of their people.

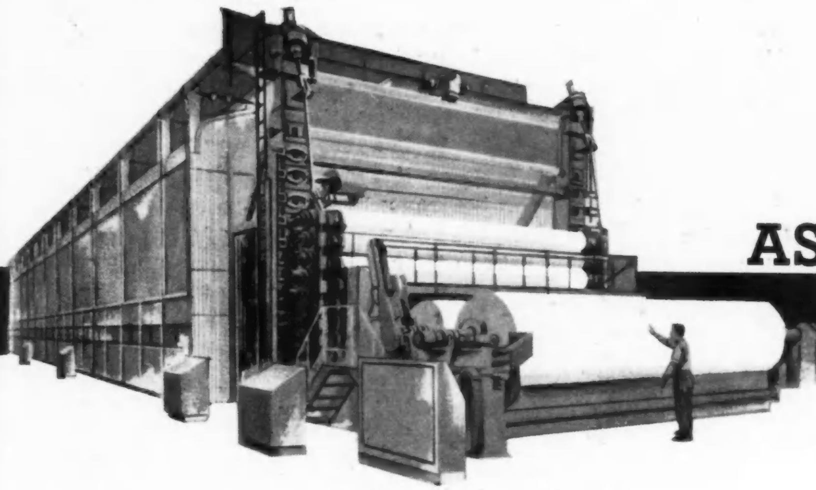
Some of the Central American countries back us, but they lack the military force needed to be of real help if we decide to take military action against Castro and his Communist-supported regime. We must think in terms of getting it done.

Across the Atlantic, we haven't fared too well either. Support for our stance has been, at best, reserved. There is no real evidence here that England and the remainder of our Western European allies are firmly back of us—their interests are not the same as ours.

President Kennedy's proposed meeting with President de Gaulle will tell the story.

NUCLEAR WEAPONS stalemate—U.S. *versus* Russia—rules out the possibility of an all-out war at the present, or in the near future, is top level thinking here. Analysis of world events over the past two years indicates the Communists are placing increasing emphasis on achieving their goal of world domination through subversion. Experts see a calculated swing away from the Latin doctrine that armed conflict between Communism and Capitalism is "inevitable." Khrushchev last January proclaimed that war [all-out] is not needed for the Communist victory. Already evident is a new Communist doctrine of peaceful co-existence, coupled with Communist-inspired local disturbances—Laos, the Congo, Cuba and other trouble spots—to bring about ultimate Red success. Admittedly, the Communists have been at work for 40 years training professional revolutionaries and trouble makers, while the U.S. and the rest of the Free World have lazily remained amateurs in the field of politico-ideological warfare. The belated Peace Corps proposal is not an answer. Needed is a far stronger organization, amply financed by this government and the NATO nations, to carry the freedom story to every corner of the Earth, especially to the newly emerging African republics and the neutralist nations elsewhere.

Embarrassing as the Russian man-in-space shot may be—there is the feeling here that we must "keep our powder dry" through expanding development of deterrent nuclear weapons rather than spend vast sums attempting to surpass the Russians in the "space race", in which we are not badly lagging, according to experts in the field—experts who confidently forecast that before Summer passes we very likely will be ahead of the Reds, with a man orbiting the Earth.



AS WE GO TO PRESS

Administration's Tax Program To Move Slowly; Faces Alterations. President Kennedy's somewhat novel tax program, designed to encourage plant expansion and production facilities, curb expense account abuses, and impose a flat 20% withholding levy on interest and dividends, even to the smallest savings accounts, as well as full taxes on foreign subsidiaries of U.S. corporations, is not going to move at any exceptional speed. House Ways & Means Committee, which has been making a detailed tax study for past two years, will want to closely compare the President's program with their own which has been slowly and painstakingly shaped up with a view to eliminating inequities and stimulating business and individual incentives. The President's proposal of tax incentives for new plants and expansion of production facilities will probably be eliminated by the Committee which apparently feels that industry has greater need for more realistic depreciation allowances to afford replacement of worn out or obsolete equipment, rather than incentives for expansion at a time when markets are depressed by high labor costs and foreign competition. Also, there is little disposition to eliminate present dividend credits or to burden business with the extra paper work that would be involved in withholding procedures.

Federal Hand-outs For Slum Clearance To Be Sharply Stepped Up. Housing & Home Finance Agency, through its Urban Renewal Administration and Community Facilities Administration, plans to double its weekly approval of grants for advance planning of facilities and capital grants to aid in urban renewal projects, now running close to $1.5 million a week. Sharing in the largesse are numerous educational institutions which often get capital grants in addition to long-term, low interest loans, the grants more than offsetting interest charges. The step-up, quietly "suggested" by the White House, is designed to "prime the economic pump".

Justice-Labor Alliance To Bolster Federal Attacks On Labor Corruption. The two Departments, through a joint committee, plan continuing survey of Labor's observance of the Labor-Management Disclosures (Landrum-Griffin) Act. The 10-man committee (5 from each department), will maintain almost daily liaison — the Labor Department on a continuing alert for violations, the Justice Department ready to seek criminal prosecution by the Attorney General. In the two years the Act has been in effect, Labor's Bureau of Labor-Management Reports have been throttled by the sheer volume of reports. This has been overcome — the Bureau is ready now, to make detailed analyses and supply Justice with the information needed to prosecute violators of L-G. Elsewhere on the Labor sector, the so-called "Common Situs" picketing bill, which would legalize secondary boycotts at construction sites (even missile and other defense installations) is meeting stiffer Congressional opposition than was anticipated by the AFL-CIO. One union, the International Association of Machinists,

has even asked that the proposed measure incorporate provisions to prevent inter-union disputes at missile and other vitally needed defense bases. The House will pass a modified measure, but Senate action at this Session can be doubted.

Ford's Caution To Business Has Prophetic Ring In Washington. Recent statement of Henry Ford II that business must keep its own house in order, or face Congressional control of business ethics, is regarded here more as a definite forecast than as a warning. Ford's comment, based on the Anti-Trust convictions of electrical equipment manufacturers supplying the government, was "not a warning, but a sure-fire forecast of legislation to come", according to reliable Capitol Hill sources who expect the restrictive legislation to be introduced at the conclusion of Sen. Estes Kefauver's (D., Tenn.) current hearings on "price rigging" by the electrical equipment manufacturers, to be concluded before Congressional adjournment, but not in time for legislative action in this Session. In the meanwhile, Dept. of Justice is thoroughly scanning past anti-trust consent decrees in search of non-compliance violations. Both Kefauver and the Administration expect to make political hay.

Rural Electric Co-ops Hungrily Eye Area Redevelopment Funds. The National Rural Electric Cooperative Association, whose members now borrow from Treasury at the low rate of 2%, let no grass grow under their feet in efforts to wring the most out of the $24 million set aside for rural industrial developments under the Area Redevelopment Act. A May 14-15 Washington conference, sponsored by NRECA, will attempt planning that would assure the funds be channeled to electric cooperative sectors that could profit most. Also to be formulated, a legislative program which would next year provide greater funds for the development of small industries in farm areas.

Central Intelligence Agency To Get Blame For Cuban Fiasco? Affirmatives are available from seemingly responsible Washington sources, despite White House denials, that CIA is to be probed by Gen. Maxwell D. Taylor, former Chief of Staff, called back to duty by President Kennedy a short day after the anti-Castro invasion "flopped". Presumably, Gen Taylor is to make a study of all of our intelligence services, our capacities for "non-conventional" warfare, etc. Fact remains, however, the feeling is strong in Administrative and Legislative circles that Mr. Allen W. Dulles' CIA fell down on its reports on the real Cuban situation, the willingness of the population there to join in an overthrow effort. It was on the basis of inaccurate or incomplete CIA reports that the General Staff said the invasion was "militarily feasible." Congress, for some time skeptical of CIA efficiency, will probe (behind closed doors) for some months to come. Other alleged CIA "failures" will be probed at the same time.

Administration Secrecy Continues Under Fire. American Society of Newspaper Editor's recent blast at the White House for withholding information — after a solemn campaign pledge of "freedom of information" — is now supported by the Washington newsmen assigned to the White House and the Cabinet level agencies. A recent private poll of some 300-odd Washington newsmen found them virtually unanimous in the opinion that the Administration has invoked a clamp-down amounting to almost war-time censorship, although the President, in his address to the American Society of Newspaper Editors, was generally credited with "frankness" in reporting on the Cuban debacle.

Equal Employment Opportunities Plagues Administration And Unions. Although Administration has laid down the dictum that qualified Negroes must have equal job opportunities with contractors serving the Federal establishment, the unions are having (1) trouble in supplying skilled Negro workers above the grade of common laborer, and (2) many of the individual union, (contrary to AFL-CIO ennunciated principles) continue to "draw the color line". It is also hard on the contractors, most of whom rely upon the unions for supplies of skilled craftsmen. Admitted by some of the leading Negro organizations are shortages of skilled workers in their own ranks. White House mulls over idea of Federally-financed trade schools to overcome the deficiency.

The Position of American Companies with Operations Abroad . . .

GLOBAL ASPECTS OF ANTITRUST LAWS ON TRADE AND BUSINESS ACTIVITIES

By JAMES A. LOUGHRAN

► ***A legal expert deals with the international impact of the Sherman Act — considered a purely domestic act — and shows how it can affect trade and upset relations with foreign nations***

SEVEN top executives were recently ordered to jail and 29 manufacturers and 44 officers fined $1,924,500 in the Government's criminal antitrust action, against the prominent electrical equipment manufacturers. This will make many executives gun-shy. **The effect of antitrust legislation extends to business arrangements abroad as well as at home. Its scope is global because the United States applies that law to transactions and business arrangements anywhere in the world.**

The wisdom of having the arm of our zealous antitrust prosecutor reach beyond our borders generates wide divergence of opinion and frequent outbursts of protests.

►On the one extreme, we have the contention that the traditional American policy of competition is essential to our long-term foreign political and economic effort. Any retreat on the foreign front might also give credence to the Soviet claim that capitalism inevitably means monopolistic or cartelistic exploitation.

►At the other extreme arises the counterclaim that the application of antitrust abroad deters the promotion of publicly useful private investment and licensing, handicaps American enterprise competitively, and more often than not affronts the sovereignty of important allies.

Statements like these would have bewildered the

legislators who enacted the Sherman Act in 1890, when isolationism was the order of the day. But the fact is that the ideological, political and economic challenge the United States faces today requires a re-examination of historical doctrines, policies, and laws. **What America does today has a greater effect on the rest of the world than it ever did before. And even more important, the reaction of the rest of the world to what we do is more significant than ever before. The conduct of our foreign business and our policies with respect to it, are no unimportant part of this whole ideological image.**

►For survival and growth, the decade of the sixties demands that America pursue a policy of liberalizing world trade and bolstering the economic health of the non-Soviet world. **Thus, it is imperative both that the standards and predictability of the enforcement of any law affecting America's foreign trade policy become definite, and that the administration accommodate itself to the practical realities of doing business abroad. Unfortunately, neither certainty nor flexibility exist at the moment and consequently our application of the antitrust law has proved a significant deterrent to the achievement of important American foreign economic objectives.**

The Impact of the Sherman Act

The basic antitrust law in the United States and the legislation most relevant for American foreign business is the Sherman Act of 1890. This law fails to distinguish between foreign and domestic trade. Section one states that "every contract, combination in the form of trust or otherwise, or conspiracy in restraint of trade or commerce among the several states or with foreign nations is declared to be illegal . . ." Its application to activities outside the United States is clear.

►In any discussion of foreign commerce, however, one must give special attention to the phrase "restraints of trade or commerce . . . with foreign nations". These words do not mean that every American firm that ventures overseas has to comply with American domestic antitrust standards in all foreign markets. Unless a direct and **substantial restraint,** or a monopolizing effect on the **commerce** of the **United States** is shown, the American company's conduct overseas is not within the reach of the Sherman Act. **For that act is concerned with freedom of competition in United States export, import and domestic markets, not with the competitive conduct of American enterprise abroad solely because it is American.**

Although the application of the Sherman Act abroad is thus limited to its **impact** on American foreign commerce there is a further complicating factor. This is the jurisdictional element. n

To businessmen, one of the most amazing aspects of antitrust enforcement is that its tentacles reach well beyond the nation's shores. For, when the Government seeks to apply the act to arrangements in whole or in part outside the United States, special problems are bound to arise—one or more of the parties may be foreign enterprise, or the conduct complained of may have taken place entirely outside the United States. This foreign connection has not deterred the Justice Department, but it has increased the uncertainty inherent in all antitrust doctrine; for judicial discretion in the interpretation of the statute itself is then matched by judicial discretion over questions of jurisdiction.

The complexity of international business facts do not easily fit into the mold of any available legal precedents. This leaves vast leeway for the judges to exercise discretion, with the result that the antitrust counselor is unable to render his own opinions wih a high degree of confidence.

The Long Arm of the Justice Department

The long reach of antitrust jurisdiction is especially startling from the standpoint of liability to suit and to grand jury subpoenas. For example, to the great surprise of many American executives, documents in the files of foreign subsidiaries are not necessarily immune from inspection by the American antitrust prosecutor.

►**An investigation conducted by the Department of Justice in 1947 illustrates this point. Here, the Government served subpoenas upon a United States corporation as agent for its wholly-owned Canadian subsidiary. The American and Canadian companies had common officers and the United States parent handled sales of the subsidiary's products in the United States. The Government subpoenas calling for files of the Canadian corporation located in Canada were granted and upheld.**

►Again, in a recent case in New York, a Swiss watch company was held to be doing business in the United States through affiliated organizations. The Federal District Court then ordered the company to answer interrogatories despite its assertion that it would be liable to penalties under the Swiss Penal Code for divulging information relating to Swiss business.

►As for personal jurisdiction, the Imperial Chemicals case indicates that the separate incorporation of American subsidiaries will not necessarily protect the foreign parent against service of process in the United States. Here, an American subsidiary of the British chemical company had New York offices used for transacting the parent's business within the United States. This was held sufficient to subject the **London firm** to the jurisdiction of the U.S. District Court. Arrangements were even made in this suit to have our Justice Department attorneys search the files of the British corporation in London.

Such extensions of our antitrust law into domestic affairs of other soverign nations are all too likely to provoke resentment or create a popular reaction vehemently anti-American.

The Foreign Subsidiary's Dilemma

Does this application of antitrust law make any sense in terms of our interest in the solvency and economic growth of foreign countries?

There are basically three ways the American manufacturing or extractive company may do business abroad.

●**First, the company may try to sell abroad through conventional trade channels, what it makes in the United States.**

●**Second, it may license some firm abroad to use its patents, skills, know-how, or trademarks,**

Foreign Operations of Representative American Companies

	Total Sales 1960 (mil.)	Appropriate Foreign Sales 1960 (mil.)	Appropriate Foreign Sales To Total Sales %	Comments on Foreign Business
Caterpillar Tractor	$716.0	$344.6	48%	Foreign sales were 26% brigher than in 1959, and notably higher than in any previous year.
Colgate-Palmolive Co.	596.3	301.2	52	International operations again resulted in new sales and earnings records.
Corn Products	691.3	207.4	30	In 1960 new-markets and new-plants were opened in seven important countries.
Dresser Industries	245.7	68.8	28	Manufacturing activity abroad and foreign exports slowly increasing.
Du Pont	2,143.0	218.0	10	A substantial increase in business was achieved by main foreign subsidiary, DuPont de Nemorus, International S. A.
Eastman Kodak	944.7	113.1	12	Sales of foreign subsidiaries nearly triple domestic exports.
General Electric	4,197.5	210.0	5	International Division conducts growing, export sales and supervises foreign subsidiaries.
IBM	1,436.0	372.2	26	The IBM World Trade Corporation, conducts company's business outside the U. S.
International Harvester	1,683.3	492.5	29	Largest increase in 1960 foreign business was in the Pacific area where sales rose 28.3%.
Minnesota Mining & Mfg.	569.6	102.0	18	Foreign business controlled by the International Division with subsidiaries in 9 countries.
National Cash Register	457.8	187.1	69	World-wide activities in 100 countries with manufacturing subsidiaries in 25 foreign lands.
Parke, Davis & Co.	200.0	63.0	31	Sustantial progress abroad in opening new markets.
Pfizer (Chas.) & Co.	269.4	121.0	45	Company has plants in 20 countries with steadily increasing foreign earnings.
Schering Corp.	82.4	18.1	22	The International Division has plants in Canada, France, Mexico, Colombia, Argentina, Chile and South Africa.
Singer Mfg.	525.9	266.4	51	Foreign competition keen, but business in major European countries showed continued growth in 1960.

receiving in return fees or royalties, or perhaps the earnings on minority shares in the licensee.

●Third, it may go into business for itself abroad by acquiring control in or establishing a foreign manufacturing enterprise. Each of these methods transfers American goods, capital and technique abroad, thereby contributing to the productivity and growth of countries outside the Soviet sphere of influence—an obvious promotion of an urgent national interest.

But the economic and political conditions abroad under which the American affiliate or subsidiary must operate often require the use of restrictions and restraints having antitrust implications. This is the dilemma.

Some recent cases do suggest, however, that the antitrust laws are not so much concerned with the flow of capital as they are with the flow of goods. Thus, for the most part, extraterritorial antitrust attention has been focused upon arrangements governing U.S. exports or imports of commodities, with special attention to any alleged clog in the free flow of capital as they are with the flow of goods. tions abroad include a combination of exports, licensing and investment, the businessman has little assurance that his penetration of the foreign market by way of "licensing only" will avoid skeptical inquiries from the antitrust investigator. Nevertheless, although the three methods of conducting business often merge in practice, the antitrust position may differ greatly depending on the approach predominantly chosen.

Problems of Export Trade

The company which engages in foreign trade by exporting goods from the United States encounters antitrust problems once it enters any agreement which limits its freedom to decide how much to sell, to whom, and at what price. **Similarly, as soon as it makes arrangements which restrict the export opportunities of other Americans or curtail the import freedom of foreign firms and American consumers, it becomes involved with the antitrust laws.**

In the case of Americans agreeing to eliminate competition among American exporters the situation seems quite clear, since freedom of independent business decision is impaired, and "trade or commerce . . . with foreign nations" is restrained. Such an agreement, however, may come under the special exemption of the *(Please turn to page 225)*

A New Feature

Number Four . . .

A First-Hand Report on . . .

LATEST SHIFTS IN 1961 DEFENSE EXPENDITURES

— And who will get the orders

By JEROME ELSWIT

SEVERAL significant trends have begun to emerge from the welter of activity at the Pentagon during the first three months of tenure by the Kennedy team. One is the growing prospect of major shifts in defense spending patterns. Another is the steady progress toward centralization, with important implications for defense business as well as for the over-all performance of the military establishment.

The Kennedy revision of the Eisenhower defense budget for fiscal 1962 is really an indicator of defense spending shifts to come in the future, rather than an instrument for accomplishing them this week or next. Despite all the hoopla about a massive increase in the nation's ability to wage limited and conventional war, more than two-thirds of the changes are addressed to strengthening the strategic deterrent forces. Within that category, the trend is plain toward systems that are more mobile or less vulnerable as well as less expensive—Polaris, Minuteman, and Skybolt, for instance, at the expense of Titan.

But even here there are no sacred cows. The very mobile railroad-launched Minuteman is being deferred in favor of the concrete-bound—but less expensive—hole-in-the-ground version.

● There has been considerable talk of additions made to "airlift and sealift" forces, but the only sealift augmentation is one amphibious transport. The 30 C-135 jet transports to be supplied by Boeing, which are the backbone of the airlift increase, are the same 30 jets that the Air Force was set to buy last year, but deferred because of political and economic pressures, and they are not exactly the answer to the Army's prayers for tactical airlift. It should also be noted that where Mr. Kennedy added about $100 million for Army modernization, Mr. Eisenhower had already added $300 million.

Shifts in the Making

● Essentially, the figures in the 1962 defense budget are not as important as the direction in which they point, read in the light of the attitudes being expressed by the President and his chief lieutenants at the Pentagon. What Mr. Kennedy has

THE HEART OF DEFENSE SPENDING

Procurement and Research, Development, Testing

(Millons of dollars)

	New Appropriations FY 1960	FY 1961	FY 1962	Expenditures FY 1960	FY 1961	FY 1962
TOTAL	17,321	17,756	19,694	18,044	18,087	19,534
Army	2,481	2,594	3,117	2,313	2,490	2,880
Navy	5,179	6,256	7,282	5,543	5,778	6,191
Air Force	9,328	8,614	8,959	9,976	10,054	10,065
Office of Sec. Def.	335	292	336	212	266	399
AIRCRAFT	6,513	5,667	5,426	6,904	6,417	6,500
Army	135	156	236	135	170	198
Navy	1,832	1,711	1,675	1,879	1,870	1,849
Air Force	4,547	3,800	3,506	4,890	4,378	4,454
MISSILES	4,672	4,911	5,369	1,016	956	1,049
Army	873	847	1,002	5,085	5,882	5,885
Navy	1,085	1,283	1,314	969	1,141	1,232
Air Force	2,614	2,780	3,053	3,102	3,785	3,604
Office of Sec. Def.	100	—	—	—	—	—
SHIPS	1,360	2,460	3,101	1,898	1,926	2,121
ORDNANCE, VEHICLES	900	1,221	1,320	665	825	1,140
Army	506	836	861	334	513	730
Navy	221	215	295	207	168	255
Air Force	174	170	163	124	144	155
ELECTRONICS & COMM. (Proc. only)	1,179	963	1,201	1,093	1,082	1,096
Army	122	148	199	211	182	186
Navy	242	197	311	154	253	231
Air Force	815	618	692	728	646	679
ASTRONAUTICS (R. & D. only)	439	526	692	512	464	628
Army	—	42	72	—	5	53
Navy	—	17	23	—	23	27
Air Force	275	467	597	366	354	549
Office of Sec. Def.	164	—	—	146	83	—

Notes: Figures are rounded off. Omitted are such categories as "Other Equipment," "Programwide management and support," and OSD Emergency Fund.

done is to make a small down payment for future sizeable commitments for conventional armaments. And interpreting this in the context of recent actions ruthlessly cutting certain projects to offset increases elsewhere, **the trend is clear—the point of diminishing returns in the buildup of bigger strategic nuclear forces is approaching.**

Secretary of Defense McNamara already has his procurement planners busily plotting out the long-range implications of this shift and others, such as the increasing emphasis on space systems of the reconnaissance, warning, communications, and defensive types. This kind of planning will improve the ability to predict defense spending shifts. But as Mr. McNamara has emphasized, it will not prevent them.

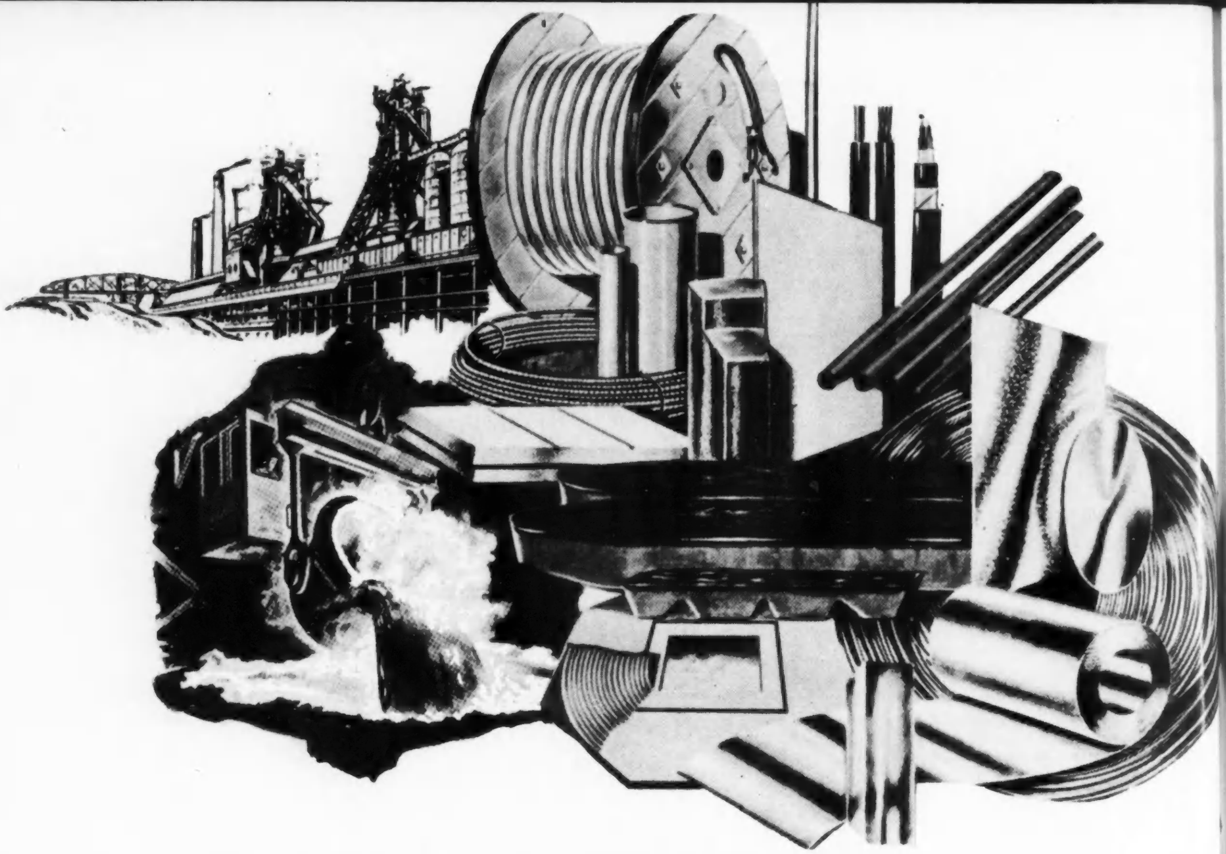
● In view of this promissory note given by Mr. Kennedy, and in light of such continuing tense situations as those in Cuba, Laos, and Vietnam, the manufacturers of the weapons and support systems of conventional warfare appear to be at the start of a sharp upcurve.

One of the many companies that stand to benefit is Food Machinery & Chemical Corp. FMC's M-113 armored personnel carrier is high on the Army's priority list, if the company can ever overcome the legal squabbles that seem to accompany every award for the M-113. The basic M-113 body is also used as the transporter for the very important Pershing (Martin) battlefield missile.

● The company has recently been chosen to provide the vehicle on which to mount the Mauler front-line anti-aircraft missile, now being developed by Convair (General Dynamics). FMC should also be a strong competitor for the new assault vehicle to be developed to house the Shillelagh anti-tank missile under development by **Aeronutronic (Ford).** At the same time, FMC is keeping a foot in the missile and space business with large-scale production of a liquid propellant, hydrazine, in conjunction with **National Distillers,** and aggressive work in solid propellants, through its one-third ownership of Grand Central Rocket, the co-owners being **Lockheed** and **Tennessee Gas Transmission.**

● Manufacturers of off-the-road vehicles are expected to come in for increasing amounts of defense business as the Army begins to bring exotic vehicle developments of the last half-dozen years to production status. Important in this category is **LeTourneau-Westinghouse,** which has pioneered in the giant vehicles of the GOER class. **Clark Equipment** is another potential GOER contractor, and **Borg-Warner's** amphibious LARC's look like good bets for eventual substantial production contracts.

● **Limited wars need air as well as ground mobility, and the Army's aviation suppliers look to have their fattest year yet in fiscal 1962.** A hefty $68 million has been earmarked for **Bell's** Iroquois tactical helicopter; $42 million for Grumman's fixed-wing Mohawk surveillance plane; $35 million for Vertol's **(Boeing)** Chinook helicopter transport. For electronic and surveillance *(Please turn to page 222)*



AS STEEL COMPANIES DIG THEIR WAY OUT

— The outlook through 1961

By JOHN MARCHESI

- **Evaluating the factors of strength and weakness evident in the industry — the solution thereof — and rehabilitation and expansion of markets**
- **Near term and longer range outlook — if recession eases — and under strong upturn**
- **Position of the individual companies through 1961 into 1962 — earnings-dividend outlook**

THE steel industry began 1961 on a soft note, in direct contrast to the year-earlier period. Operations for the first three months of the new year were about 53% of unofficial 1961 capacity. Output totaled 19.7 million tons, or 43% below the 34.7 million tons poured in the like 1960 period. This situation has caused considerable concern among steel investors, who wonder to what extent competitive products are cutting into the market for steel. The best way to answer these questions is to step back and examine both the positive and negative factors affecting the industry's fortunes.

Speaking generally, the fact remains that the basis for evaluating steel growth is not on productive capacity, but on the amount of steel actually produced. That there has been a slow-down in the expansion of the steel industry first became evident in 1956, when output slipped 1.8 million tons below the record steel production of 117 million tons in 1955. While this decline was narrow it contrasted with an advance in the general economy. And steel has not participated in the subsequent boom. What are some of the factors involved in this interruption of the previous upward trend?

Switch of Emphasis from Durables to Services

First, the pent up demand for durables which existed immediately after World War II was largely satisfied and the consumer began to switch his attention to the services end of the economy, where less steel is required. Not only did the average American slow down his purchase of cars—peak output was reached in 1955 for the auto industry—but his taste in vehicles changed as well. The swing from oversize to compact cars was unpleasant for the steel industry since considerably less of its product is needed in the junior model. Shipments of steel mill products to Detroit fell to 1.85 tons per vehicle

Comparative Earnings and Dividend Records of Leading Steel Companies

	Earnings Per Share			1st Quarter Earnings Per Share		Dividends Per Share				
	1959	1960	Cash Earn. Per Share	1960	1961	1960	Indicated 1961 †	Recent Price	Div. Yield	Price Range 1960-61
Acme Steel	$1.17	$ .61	$1.70	$ .72	$N.A.	$1.00	$ .40	20	2.0%'	32⅞-16
Allengheny Ludlum Steel	2.92	2.25	4.14	1.24	.77	2.00	2.00	45	4.4	56½-32¼
Armco Steel	5.21	4.76	7.47	1.62	.63	3.00	3.00	72	4.1	77⅝-57
Bethlehem Steel	2.44	2.52	4.40	1.10	.14	2.40	2.40	47	5.1	57¼-37⅛
Carpenter Steel	2.33[1]	3.51[1]	4.85[1]	.98	.50	1.60	1.20	47	2.5	58¾-38¼
Colorado Fuel & Iron	1.04	d.42	2.91	.72	N.A.	[2]	—	20	—	35⅜-13½
Copperweld Steel	5.00	2.08	4.87	1.18	d	2.00	2.00	36	5.5	55 -27⅛
Crucible Steel	1.50	.19	2.50	.67	d	.80	80	22	3.6	29⅞-16
Detroit Steel Corp.	3.35	.90	2.06	1.15	d	1.00	1.00	19	5.2	26⅛-13
Eastern Stainless Steel	2.18	1.24	2.09	.54	.33	.90	.90	22	4.0	25¾-15
Granite City Steel	2.76	2.59	4.07	1.00	.44	1.40	1.40	45	3.1	46½-30
Inland Steel	2.77	2.68	5.01	1.07	.46	1.60	1.60	45	3.5	50½-36½
Interlake Iron Corp.	3.25	1.85	4.22	.83	.14	1.60	1.60	26	6.1	34¼-21
Jones & Laughlin Steel	3.58	4.04	10.09	2.22	.28	2.50	2.50	67	3.7	89¾-49¾
Keystone Steel & Wire	4.94[1]	4.44[1]	6.24[1]	1.18	N.A.	2.00	2.00	37	5.4	46½-31¼
Lukens Steel Co.	4.39	5.19	9.14	2.43	.57	1.50	1.00	72	1.3	91½-49¼
National Steel	7.28	5.53	10.96	2.35	.77	3.00	3.00	85	3.5	98¼-68
Pittsburgh Steel	d1.45	d.18	6.10	1.16	d	—	—	16	—	22⅞-10⅝
Republic Steel	3.43	3.36	5.67	1.80	.37	3.00	3.00	61	4.9	78¾-48½
Sharon Steel	1.94	1.02	4.42	2.03	N.A.	.85	.40	28	1.4	43¾-19⅛
United States Steel	4.25	5.16	9.33	1.97	.47	3.00	3.00	87	3.4	103¼-69¼
Universal Cyclops Steel	5.24	2.25	5.05	1.08	.31	1.20[3]	1.20[3]	40	3.9	51½-26⅞
Wheeling Steel	2.53	3.14	10.55	2.43	d	3.00	3.00	51	5.8	62¾-41⅝
Youngstown Sheet & Tube	8.90	7.38	14.82	3.70	.77	5.00	5.00	108	4.6	138½-84¼

†—Based on latest dividend reports.
d—Deficit.
N.A.—Not available.

1—Year ended June 30.
2—6% in stock.
3—Plus stock.

Acme Steel: The company is upgrading facilities, with a new oxygen steel plant and rolling mill. However, record is unimpressive. **C4**

Allegheny Ludlum: Demand for the company's line of specialty steels should begin to pick up soon. Longer-range prospects are enhanced by 50% ownership of Titanium Metals Corp. **B4**

Armco: An important producer of flat rolled steel. Recent earnings well maintained. Recovery in the oil field equipment market could bolster results. **A4**

Bethlehem Steel: Absence of the shipyard strike and better demand for structurals favor the 1961 outlook for this large producer. **A4**

Carpenter Steel: While relatively small, company has good position in stainless and specialty steels. These products have better-than-average growth prospects. **B4**

Colorado Fuel & Iron: A marginal company attempting to improve its position by upgrading facilities. **C4**

Continental Steel: Small producer of wire mill products sold mainly to farm market. Also, to manufacturing and construction outlets. **B4**

Copperweld: The immediate outlook for this producer of alloy, stainless and carbon steels is not well-defined. **C4**

Crucible: Absence of non-recurring expense should result in a better profits showing in 1961. **C1**

Detroit Steel: A marginal company dependent on periods of high steel demand. Earnings fell sharply in 1960. Immediate prospects are clouded. **C4**

Eastern Stainless: This company operates in one of the few areas in the steel group where price competition is severe. **C4**

Granite City: Company has been quite successful in exploiting its mid-western marketing area, mainly around St. Louis. Facilities expanded and modernized. **B4**

Inland: Operating in the steel-deficit region around Chicago, this company has had a favorable record over the years. However, new competition is entering this area. **A4**

Interlake Iron: A merchant pig iron producer. Aluminum is entering the engine block field, a large outlet for company. **C4**

Jones & Laughlin: Capital spending has improved potential earning power of company, but a higher level of steel demand is needed to show results. **B4**

Lukens: An important producer of heavy steel plates and other specialties. Sizable earning power depends on volume. **C4**

National Steel: Profit potential is being enhanced by entry into the Chicago area. At present, autors and containers are major markets. **A4**

Pittsburgh: A high-cost producer, with deficits on common stock since 1957. Increased capital outlays have failed to bolster position. **D4**

Republic: Number three in the industry, this company has important positions in stainless and alloy steels, as well as in carbon steels. **B4**

Sharon: A high-cost producer, the company will have to spend substantial amounts of money if its facilities are to be upgraded. **D4**

U.S. Steel: The leading producer in the industry. Company is fully-integrated and one of the most efficient. Large capital outlays have strengthened position. **A4**

Universal-Cyclops: Formerly in stainless steel only. Operations now include flat-rolled products. **C4**

Wheeling: Medium-sized company, emphasizing tinplate and flat-rolled products. Use of oxygen may aid in upgrading facilities. **C4**

Youngstown Sheet & Tube: Management is attempting to broaden the product mix by improving finishing facilities. **B4**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

in 1960, versus 2.11 tons in 1959; this was the lowest unit amount since 1954 or pre-compact days. Like the automobile industry itself, steel can hope that the compact car will eventually mean more two or three-car families, but it must wait longer for this happy result.

Heightened Competition, At Home and Abroad

Not only has the steel industry been affected by a possible secular decline in its markets, but competition from other materials such as aluminum, plastics and cement has also become more intense. In common with nearly all industries steel has experienced pressure on margins from rising costs in recent years. This combination of factors, together with one more still to be mentioned, have served to keep a lid on prices in the last two years, contrary to the experience of the early post-war days when it was possible to lift steel quotations as necessary to offset higher wages.

The latest challenge, possibly the most serious of all, is growing foreign competition. It is ironical to realize that American money and know-how were poured into a devastated Europe after the War to produce a steel complex in some respects more modern than is found on this shore. Coupled with significantly lower wage rates, this efficiency puts foreign steelmakers in a strong competitive position vis-a-vis their American rivals. For the moment the threat from abroad is muted, owing to the strong demand for steel from home markets. But when industrial activity begins to slip in Europe and Japan, manufacturers in those areas may step up their efforts to invade the American market.

Lower Break-Even Point Achieved

This evidence does look impressive, but as Mark Twain once remarked: "Reports of my death have been greatly exaggerated". Many constructive aspects in the steel industry's outlook tend to be overlooked at this moment when the picture is somewhat clouded. Undeniably, steel remains *the* basic industry, without which our economy could not tick. Many of the units which make up the industry are large and strong financially. For instance, U. S. Steel did \$3.7 billion worth of business last year, on which it netted no less than \$304 million. At the end of the year the corporation had \$608 million of net working capital which included \$451 million of cash items. Other companies enjoyed similar financial good health.

► Perhaps most important of all, the steel industry now has an extremely low break-even point. Such efficiency was not attained overnight, but was the product of many dollars spent over a span of years. **Despite the fact that operations were barely over the 50% mark for the first quarter of 1961, most major producers were in the black.**

In prewar days, only red ink would have been used to tote up the results of operations at such a low level of capacity. More significantly still, further steps can be taken to increase efficiency, as has already been demonstrated by recent growing interest in the use of oxygen in the steelmaking process. The industry is spending large sums of money in an effort to reduce the cost of making the ingot, and it would be a fair bet additional progress on this score will be accomplished.

Advantage of Stable Price Structure

► A stable price structure has been a major element of strength for the steel industry, in direct contrast to many other lines where chronic price wars break out when business slows down. To be sure there has been some shading here and there, and outright cuts have occurred in alloy and stainless steels, but the basic price structure of carbon steel has held firm. If this doesn't sound like an important asset, talk to executives in paper, building materials, tires and other industries where price-cutting is rampant and business life really gets rough during economic slides.

► A final important sign is the steel industry's new-found determination to get tough with the opposition. After watching various materials nibble away at their markets, the steel people have finally begun to fight back in earnest. So-called "skinny tin plate" was quickly rushed from the laboratory into production when the aluminum crowd tried to muscle into the profitable canning market. A new attitude toward research should eventually yield dividends for steel, which is still described as the original "wonder metal" for its wide range of uses and its low cost.

► When one adds up the plusses and minuses in the overall steel picture, it becomes pretty evident that talk of the industry's decline is premature. On the contrary, it still possesses significant advantages. Many problems do remain to be solved, of which the import threat may be the most troublesome, but this basic industry should continue to expand with the economy. It is probably not a growth industry in the accepted sense of the word in the past, but then no one really believed that it

Comprehensive Statistics Comparing

Figures are in million dollars except where otherwise stated.	Allegheny Ludlum Steel	Armco Steel
CAPITALIZATION:		
Long Term Debt (Stated Value)	\$ 42.2	\$158.8
Preferred Stocks (Stated Value)	—	—
No. of Common Shares Outstanding (000)	3,883	14,797
Capitalization	\$ 46.1	\$306.7
Total Surplus	\$106.6	\$548.6
INCOME ACCOUNT: Fiscal Year Ended	12/31/60	12/31/60
Net Sales	\$238.7	\$938.0
Deprec., Depletion, Amort., etc.	\$ 8.2	\$ 40.1
Income Taxes	\$ 9.5	\$ 64.8
Interest Charges, etc.	\$ 1.7	\$ 6.4
Balance for Common	\$ 8.7	\$ 70.4
Operating Margin	7.8%	12.5%
Net Profit Margin	3.7%	7.5%
Percent Earned on Invested Capital	7.9%	10.1%
Earned Per Common Share	\$ 2.92	\$ 4.76
Cash Earnings Per Share	\$ 4.14	\$ 7.47
BALANCE SHEET: Year Ended	12/31/60	12/31/60
Cash and Marketable Securities	\$ 21.3	\$217.8
Inventories, Net	\$ 57.6	\$237.8
Receivables, Net	\$ 17.2	\$ 94.7
Current Assets	\$ 96.9	\$550.4
Current Liabilities	\$ 27.2	\$116.1
Working Capital	\$ 69.7	\$434.3
Current Ratio (C. A. to C. L.)	3.5	4.7
Fixed Assets, Net	\$ 84.8	\$398.4
Total Assets	\$182.5	\$1,003.6
Cash Assets Per Common Share	\$ 5.50	\$ 14.72
Inventories as Percent of Sales	24.1%	25.3%
Inventories as % of Current Assets	59.5%	43.1%

*—Statistics on other leading companies have not been included because balance sheet figures have not been released yet.
d—Deficit.

the Position of Leading Steel Companies *

Bethlehem Steel	Colorado Fuel & Iron	Crucible Steel Co. of Amer.	Inland Steel	Jones & Laughlin	National Steel	Republic Steel	U. S. Steel	Wheeling Steel	Youngstown Sheet & Tube
$140.4	$ 75.3	$ 33.0	$209.2	$133.1	$189.5	$214.7	$422.7	$ 29.2	$165.3
$ 93.3	$ 7.4	$ 9.9	—	$ 29.3	—	—	$360.2	$ 32.9	—
45,487	3,892	3,832	17,577	7,852	7,580	15,708	54,033	2,107	3,485
$789.7	$102.2	$ 91.3	$331.2	$241.2	$265.3	$372.1	$1,683.6	$ 83.2	$278.3
$999.8	$116.5	$ 72.3	$364.0	$430.0	$436.8	$571.0	$2,041.0	$153.0	$352.3
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$2,178.1	$249.1	$210.9	$747.0	$778.7	$697.0	$1,053.8	$3,648.8	$224.8	$574.2
$ 94.1	$ 12.5	$ 8.3	$ 41.0	$ 46.1	$ 41.1	$ 36.3	$214.1	$ 13.9	$ 26.9
$130.0	$(CR)1.5	$(CR) .7	$ 44.2	$ 23.0	$ 42.3	$ 50.4	$270.0	$ 5.7	$ 24.2
$ 3.5	$ 4.5	$ 1.1	$ 8.2	$ 5.8	$ 7.8	$ 5.6	$ 16.9	$ 1.0	$ 4.6
$114.6	$ d1.6	$ .7	$ 47.0	$ 31.6	$ 41.9	$ 52.8	$278.9	$ 6.6	$ 25.7
10.3%	.8%	3.9%	12.1%	7.4%	12.3%	9.4%	14.6%	5.4%	7.7%
5.5%	—	.5%	6.2%	4.2%	6.0%	5.0%	8.3%	3.6%	4.4%
7.3%	—	.9%	9.6%	6.1%	8.1%	7.2%	9.2%	4.0%	5.5%
$ 2.52	$ d.42	$ .19	$ 2.68	$ 4.04	$ 5.53	$ 3.36	$ 5.16	$ 3.14	$ 7.38
$ 4.40	$ 2.91	$ 2.50	$ 5.01	$ 10.09	$ 10.96	$ 5.67	$ 9.33	$ 10.55	$ 14.82
12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$478.5	$ 14.2	$ 7.9	$ 38.9	$ 40.8	$104.2	$117.1	$451.7	$ 36.8	$ 81.0
$419.9	$ 75.4	$ 51.5	$123.5	$140.2	$108.3	$245.5	$725.6	$ 62.9	$128.2
$152.5	$ 26.3	$ 15.9	$ 46.1	$ 48.9	$ 57.1	$ 62.7	$218.5	$ 12.3	$ 66.9
$1,050.9	$116.0	$ 75.8	$208.6	$230.0	$269.7	$425.4	$1,395.8	$114.1	$276.1
$394.0	$ 32.0	$ 18.2	$ 62.8	$ 96.0	$110.7	$143.0	$787.7	$ 27.2	$ 88.4
$656.9	$ 84.0	$ 57.6	$145.8	$134.0	$159.0	$282.4	$608.1	$ 86.9	$187.7
2.6	3.6	4.1	3.3	2.4	2.4	3.1	1.7	4.2	3.1
$980.3	$121.3	$100.3	$523.9	$547.6	$531.8	$610.7	$2,787.5	$147.0	$404.9
$2,274.9	$281.0	$182.4	$769.4	$793.5	$848.7	$1,121.0	$4,626.8	$272.5	$755.2
$ 10.52	$ 3.65	$ 2.07	$ 2.21	$ 5.20	$ 13.74	$ 7.46	$ 8.36	$ 17.48	$ 23.25
19.2%	30.3%	24.4%	16.5%	18.0%	15.5%	23.3%	20.0%	28.0%	22.3%
40.0%	65.0%	68.0%	58.8%	60.9%	40.2%	57.7%	52.0%	55.1%	46.4%

was, except perhaps in the immediate post-war period.

A Look At First Quarter Reports

► One final word about the past before delving into the future. Before the investor takes the poor first quarter of 1961 at its face value and shakes his head at a 43% year-to-year drop in output, he should think back to the conditions which existed in early 1960. With the long steel strike over, the steel mills pushed their operations close to capacity both to satisfy current demand for their product and to allow for anticipated inventory building by consumers. Hence, the 94% average operating rate for the first three months of 1960 was inflated to a considerable degree and it is an altogether improper comparison for the three months just ended. Steel output for the first quarter of 1961 was at an abnormally low level, and the earnings statements for that period must be interpreted in light of this condition.

Basis for Optimism

Now that the steel industry has been seen in its proper perspective, a look at the prospects for the balance of 1961 is in order. **There are three major factors which could lead to better things in the second quarter of the year, namely: seasonally higher consumption, an end to inventory cutting and larger steel demand from Detroit.**

The first two factors offer realistic hope, since demand from construction, road building, can makers, pipelines and farm equipment manufacturers is on the rise, paralleling the emergence of spring. Inventory liquidation is no longer regarded as a serious factor holding down production, since users' stocks are now apparently at extremely low levels. The clearest indication that inventories of steel have been worked down is the increasing number of rush orders being received by the mills.

The Automobile Enigma

The automobile picture is more puzzling, but even here the signs point to growing improvement. Retail sales of autos appear to be in an uptrend from the extremely low levels touched early in the year. Dealers are gradually working off huge inventories of cars; stocks of well over one million cars earlier in 1961 have been pared to a more manageable proportion. The key to automobile production in the second and third quarters is not necessarily found in sales figures or in stocks. Rather, the attitude of Mr. Reuther could well keep production of cars at higher levels than otherwise appears justified. It seems highly unlikely that the auto industry will sit down at the bargaining table this fall with excessive union demands on the docket and not protect itself to some extent by having an ample supply of cars in the field. Production of cars should accordingly be on the rise in the second and third quarters, a condition which could work a powerful influence on the level of steel production.

Longer-Range Factors

Translating these demand factors into steel production, prospects favor output of 22 to 24 million tons in the second quarter *(Please turn to page 223)*

AUTO INDUSTRY IN TRANSITION

By CARROL A. MUCCIA

► **How Detroit Has Had To Revamp Its Ideas And Methods.**
► **What The Compact Means To Sales And Earnings.**
► **Big Three Competition: An Appraisal Of Impact.**

THE "Era of the Big Change" is not over. It did not end with the introduction of the compact — it is continuing along in some uncertain direction guided by the reflecting pressures of the buying public. Styles, shapes, colors, cylinders, optionals and extras have all become part of a revamped but flexible and mobile industry. Men and machines have been put to the unswerving task of producing the acceptable compact, persuading people to purchase it over nine other similar domestic makes and innumerable foreign models, then finally asking the buyer to pick up a "second car". All this and show a decent profit too.

A new philosophy has been adopted by the auto makers and this has been succinctly summed up by one executive: "We have to keep our fingers right on the pulse of the market; this consists of being ready to supply what the auto market needs when it is needed and if possible to be one jump ahead of those needs".

Supplying needs is not as simple as it sounds — other factors enter in, which makes pulse-taking difficult. The compact car was introduced just in time to rescue domestic car makers from growing foreign competition. But just as the auto industry started to regain its poise, a business recession intervened and car sales slowed down. As the business cycle neared its low point, we experienced one of the longest and most severe winters in recent times which also had an adverse impact on car production and sales. As a result, car sales and prices were low, not to mention the record high auto inventories on hand during the first quarter of this year.

The Difficult Entrance Into 1961

New ideas, and new models cost money. Heavy capital outlays were necessary to revamp old models and produce different combinations of completely new ones.

The industry entered 1961 with high inventories and dealer dissatisfaction. So it is not alarming when one looks at first quarter figures with some degree of understanding and notes sales and profits off from a year ago.

An Upturn In The Making

As the economic cycle takes its course, auto sales react to these fluctuations in a much more violent way. In 1958, industrial production dropped 7% and auto sales 22%. In 1959, when industrial production rose 13%, auto sales rose 29%. First

Data on Leading Automotive and Truck Manufacturers

	Earnings Per Share			1st Quarter Earnings Per Share		Dividends Per Share				
	1959	1960	Cash Earn. Per Share 1960	1960	1961	1960	Current Annual Div. †	Recent Price	Div. Yield	Price Range 1960-61
American Motors	$3.37[1]	$2.68[1]	$3.09[1]	$ 68[2]	$ 56[2]	$1.05	$1.20	20	6.0%	30½-16½
Chrysler	d.62	3.61	11.86	1.25	N.A.	1.50	1.50	44	3.4	71⅞-38
Ford Motor	8.23	7.79	10.77	2.61	N.A.	3.30	3.30	82	4.0	92⅞-60⅝
Fruehauf Trailer	1.88	1.35	1.76	.58	N.A.	1.20	1.20	21	5.7	30⅛-17¼
General Motors	3.05	3.35	4.77	1.14	.65	2.00	2.00	45	4.4	55⅞-40¼
International Harvester	5.66[3]	3.40[3]	7.76[3]	.92[4]	d.07[4]	2.40	2.40	51	4.7	52⅞-38⅜
Mack Trucks	5.71	4.10	6.29	1.02	N.A.	1.80	1.80	41	4.3	52⅜-29⅞
Studebaker-Packard	4.36	.10	.83	.42	d	—	—	8	—	24½- 6½
White Motor	6.94	3.10	4.25	1.23	N.A.	2.05[5]	2.00	56	3.5	67¾-36

†—Based on latest dividend rates.
d—Deficit.
N.A.—Not available.
[1]—Year ended Sept. 30.
[2]—Quarter ended 12/31/59 and 12/31/1960.
[3]—Year ended Oct. 31.
[4]—Quarter ended Jan. 31.
[5]—Plus stock.

American Motors: Rambler still holding second place in compact sales. Earnings should be in the area of $1.25 - $1.50 a share. **C2**

Chysler: With Valiant sales still disappointing, profit results will probably fall below the $3.61 per share in 1960. **C2**

Ford: Encouraging showing of the Falcon and standard size line will put earnings in the area of $6.00 - $6.50 a share. **B1**

Fruehauf Trailer: Accounting for 40% of industry sales, company will continue to benefit from growth in transportation. **C1**

General Motors: Fast climbing Corvair and continuing growth in other divisions will make another good year. **A1**

Int'l Harvester: Despite poor first quarter results, diversification and expansion will enhance full years results. **B1**

Mack Trucks: Should benefit from the upturn in business activity despite increased competition. **C1**

Studebaker Packard: New management and acquisition program will not offset the weakening position of the company. **C4**

White Motor: Aggressive management and modernization activity will continue to help in achieving previous record highs **C1**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive.
1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

quarter production figures for 1961 reveal that 1.4 million cars were built which is a 39% decline from the 2.3 million built in the similar period last year. Following this historical pattern one would expect a reversal of this downtrend, with the pick-up in the general economy we are now experiencing.

The severe weather which was a contributor to lower auto sales is beginning to show signs of warmth and this will certainly help. The annual spring sales drive has already been initiated and results so far are encouraging, but behind last year. Used car sales are beginning to improve and used car prices have firmed to some degree, adding stability to that market. Dealer inventories are slowly decreasing to a point where they are becoming manageable. In March alone, nearly 75,000 new cars were eliminated from the one million plus backlog. This inventory cutback amounted to 7.4% or the equivalent of a 52½ day supply. Comparable days' supplies at the beginning of March were approximately 65 days.

Personal disposable income which had remained at a high level during the recession, will hit an all time peak this year and more spending on durable goods out of a larger amount of income will augur well for auto sales. The Federal Reserve Board's quarterly survey of consumers showed that approximately 3.5% of all domestic families planned to buy a new automobile within the following 6 months compared with 3.4% a year earlier and a 1960 low of 3.0% last July. As all the aforementioned factors begin to operate in unison, auto plants are starting to reopen, and production planned is the highest so far this year. Although production estimates for the calendar year of 5.6 to 5.8 million are still below 1960 results, an optimistic attitude among manufacturers and dealers alike is wide-spread.

Many Problems Still Exist

► Stepped up production figures do not hide many problems which still plague the industry. Automobile installment credit is declining both in amount and as a percent of total installment debt outstanding. This can be attributed in part to the contraction in total installment debt which was a result of decreased consumer spending. The number of franchised automobile dealers has dropped by 10,000 in the last nine years.

► In 1952, there were 43,300 franchised dealers who sold an average of 96 cars per dealership; last year the number had decreased to 33,400 dealers who averaged 198 sales apiece. A great deal of dealer dissatisfaction has resulted from the onerous restrictions placed on dealers and also a lack of communication between manufacturer and dealer. Manufacturers have increased the number of models of different makes five-fold in the last five years. In addition, the variations in optional equipment, engine specification, and color and size, has multipled to a point where to get on the spot delivery a dealer must almost have his own factory. Dealers were also antagonized at the lack of flexibility in forcing them to accept many more cars than they could sell, especially during a prolonged period of poor car sales. Many failures among dealers resulted from these practices as well as slimmer profit margins on the smaller car and lack of response for the previously popular large luxury auto.

► Besides worries about designs and dealers, the industry must cope with the UAW. The labor problem looms ominously on the horizon and manufacturers are looking forward to upcoming preli-

minary talks with some degree of apprehension. In 1958, Mr. Reuther passed up most of his wage and improvement demands because of highly depressed conditions at that time. Since then, however, industry sales have leaped from 4.2 in 1958 to 6.7 million in 1960 and with a continuing loss of union membership, Mr. Reuther might put up a long and hard battle.

By the time the union-management talks begin, auto sales should be at their peak for the year and thus the outcome will probably produce higher wage costs either through a direct wage hike or continuation of fringe benefits. With labor costs becoming an increasingly larger part of the final product, the latter half of this year may well set the stage for further inroads into profit margins.

What Have Compacts Accomplished?

After successfully stemming the rising tide of foreign car sales in this country, the industry is now faced with an enigma of its own creation. Following the introduction of the low price economy car, foreign imports began to stabilize except for Volkswagen. The once popular British and French cars were replaced by the American Corvairs, Larks and Ramblers. Foreign car sales should run in the area of 425,000 units which compares with 444,000 cars in shipped in 1960 and 668,000 in 1959.

Currently accounting for over one third of total car sales, the compacts are beginning to change their spots. What was once the epitome of economy and low cost operation has turned into a smaller and slower car with all the extras. Consumers are going for optionals such as power steering, brakes, four speed transmission, and bucket seats with gusto, and factory recommended prices are becoming inflated. Detroit is following in true pattern by coming out with different models of the compact just to satisfy the buyers appetite for economy with pleasure. Luxury compacts have been introduced. The Buick Special, the Pontiac Tempest, the Chrysler Valiant, and the Olds F-85. The big three has run the gamut from the luxury power plants to the small economy unit and now the "luxury" compact. The Edsel is not a distant memory.

How The Other Two-Thirds Live

In an effort to recapture declining profit margins, larger volume sales must be effected. By concentrating on increasing the sales of compacts, manufacturers have increased competition of their standard size cars. When Dodge introduced the low priced Dart, traditionally low priced Plymouth sales suffered to such an extent that Dart outsold the old favorite, Plymouth.

Dealers complain because they have to put more effort into selling a larger amount of compacts at the expense of regular larger models. Price cutting and profit margins drive a hard bargain and dealer loyalties are now divided. Should I concentrate on the Chrysler Valiant or a small Plymouth?

The trend is now clearly evident. People wanted economy cars and they got them. Now they want different types, models and classes and Detroit is catering to their wishes. Complete satisfaction of the buyers wants seems to be the byword. It wasn't too long ago, however, that Ford was losing money in attempting to fill all car needs and at the same time meet competitive pricing. Will it happen again is a serious question.

We now find ten types of compact cars battling for their share of the market. But the car market isn't growing that fast, so 1961 profit margins on those compacts will be quite small.

What's The Answer?

The evidence is now before the jury. The jury, the American consumer, has rendered a stern verdict that he wants a mode of transportation that is cheap to run, efficient to operate and yet affords him the moderate accoutrements of luxury. No longer will he put up with those ostentatious land cruisers of two years ago, no longer will he pay out huge gasoline and maintenance bills. He wants a reliable automobile. Has Detroit answered this call? For a while, they did answer the call. Led by the Rambler, American Motors was propelled to the forefront of consumer preference. And then, as almost a death knell, the Big Three rushed to the fore and are now grappling for their share of the market as before.

► What can we expect from the auto industry in the future? 1961 should see from 5.6 to 5.8 million vehicles produced. 1962 will probably exceed that figure and approach the 6.7 million year of 1959 because of the following reasons: Personal income will continue to rise; the formation of new family units will increase; more suburban construction will necessitate more transportation — foreign car sales are tending to stabilize around 425,000 units — the manufacturers themselves will help by becoming more adaptable to the wishes of the consumer. They will offer more economy models, with a wider range of optional equipment and extras, in a variety of colors and body styles. This will satisfy a large segment of the population who previously were very peculiar and specific in their choices. The void is slowly being filled.

Sales will rise but what about profits? Profits will start to rise gradually as manufacturers learn to cope with larger volume and slimmer margins. As more automation is instituted and dealerships are consolidated, delivery and service maintenance is improved, these economies will show up in the profit column. But to repeat, this profit growth will be slow, so don't look for anything spectacular over the next couple of years.

An Appraisal Of The Companies

General Motors posted a 13% gain in sales in 1960 as all G.M. cars accounted for 43.6% of total new domestic registrations. The lower priced compacts, Corvair, F-85, Special and Tempest contributed 12% of the company's domestic car production which was up from 3.1% of sales in 1959.

● Net income was the second highest in the history, although first quarter profits will be about half of comparable 1960 figures, each successive quarter should show an increase, and year end earnings should be in the area of \$2.60-\$2.70 per share.

● Sales of compact cars have been increasing as a part of total sales, but standard car sales in the Chevrolet and Pontiac Divisions have been holding up nicely. The Corvair has jumped to third in compact sales behind front running Falcon and Rambler. The Corvair, "Monza", has caused quite a sensation in automotive circles and delivery time is still about two months.

● Two recent anti-trust suits have been placed

Comprehensive Statistics Comparing the Position of Leading Automotive Companies *

Figures are in million dollars except where otherwise stated.	American Motors	Chrysler Corp.	Ford Motor	General Motors	International Harvester
CAPITALIZATION:					
Long Term Debt (Stated Value)	4.0	$ 250.0	$ 239.4	$ 237.4[2]	$ 144.0
Preferred Stocks (Stated Value)	—	—	—	$ 283.5	$ 81.6
No. of Common Shares Out. (000)	17,989	8,895	54,916[1]	282,773	14,131
Capitalization	$ 34.3	$ 472.3	$ 514.0	$ 995.4	$ 791.0
Total Surplus	$ 193.3	$ 481.9	$2,605.0	$5,056.5	$ 374.2
INCOME ACCOUNT: Fiscal Year To	9/30/60	12/31/60	12/31/60	12/31/60	10/31/60
Net Sales	$1,057.7	$3,007.0	$5,237.8	$12,736.0	$1,683.3
Deprec., Depletion, Amort., etc.	$ 18.1	$ 239.4	$ 307.5	$ 388.0	$ 55.7
Income Taxes	$ 57.2	$ 33.6	$ 346.8	$1,078.5	$ 58.9
Interest Charges, etc.	$ .3	$ 9.3	$ 9.9	$ 6.4	$ 10.3
Balance for Common	$ 48.2	$ 32.1	$ 427.8	$ 946.1	$ 48.0
Operating Margin	9.2%	2.3%	12.4%	15.0%	7.5%
Net Profit Margin	4.5%	1.0%	8.1%	7.5%	3.2%
Percent Earned on Invested Capital	21.6%	4.5%	14.8%	16.4%	5.2%
Earned Per Common Share	$ 2.68	$ 3.61	$ 7.79	$ 3.35	$ 3.40
Cash Earnings Per Share	$ 3.09	$ 11.86	$ 10.77	$ 4.77	$ 7.76
BALANCE SHEET: Year Ended	9/30/60	12/31/60	12/31/60	12/31/60	10/31/60
Cash and Marketable Securities	$ 43.7	$ 329.4	$ 454.1	$1,637.4	$ 175.1
Inventories, Net	$ 115.5	$ 321.8	$ 527.7	$1,811.0	$ 553.3
Receivables, Net	$ 38.8	$ 124.1	$ 192.9	$ 608.5	$ 191.0
Current Assets	$ 203.8	$ 801.6	$1,198.2	$4,057.0	$ 915.5
Current Liabilities	$ 107.6	$ 370.5	$ 560.5	$1,257.7	$ 277.2
Working Capital	$ 96.2	$ 431.1	$ 637.7	$2,799.3	$ 638.3
Current Ratio (C. A. to C. L.)	1.9	2.1	2.1	3.1	3.3
Fixed Assets, Net	$ 94.8	$ 510.3	$1,515.7	$3,010.4	$ 434.6
Total Assets	$ 338.4	$1,368.5	$3,756.8	$7,837.6	$1,456.3
Cash Assets Per Common Share	$ 2.43	$ 37.03	$ 8.20	5 5.78	$ 12.39
Inventories as Percent of Sales	10.9%	10.7%	10.0%	14.2%	32.8%
Inventories as % of Current Assets	56.7%	40.1%	44.0%	44.6%	60.4%

*—Statistics on other leading companies have not been included because recent balance sheet figures have not been released yet.

1—Includes 16,714,052 sh. com.; 31,910,296 sh. cl. "A" and 6,292,400 sh. cl. "B".

2—Does not include $67.9 million notes payable to for'gn. subsid.

against G.M., one in buses and the other in locomotives. Company representatives expect to successfully defend their position. It is not anticipated that these suits will cause any damage to G.M. Although the duPont holdings have not been reconciled, clarification is expected this year.

Chrysler has had a relatively disappointing year. Although the company netted $32 million during 1960, the first profit since 1957, per share earnings were $3.61 compared with $13.57 in 1957. Three years ago a goal of 20% of the total car market was forecasted by management, but in 1960, they sold 14% of all cars. It started at above 15% and ended the year at above 12%. If a cost cutting program is ever fullfilled, a breakeven point of 7% of the market will be achieved. But this program is a long way off.

● As a step in effecting economies and consolidation, the DeSoto line was dropped, which should show up in profits this year. Valiant sales were still a disappointing fifth among the compacts and Lancer was next to last. What was to be Chrysler's answer to the Rambler and Corvair has turned out to be a costly flop. Heavy promotional and advertising expenses have slimmed profit margins down to the break-even point. At the same time customer acceptance has been reticent and slow. Although moderate sales improvement can be expected, nothing exceptional is in the offing. The first quarter of this year will probably reveal a deficit due to much lower production and high breakeven points. If Chrysler has a successful year they will probably show earnings of $2.00 per share.

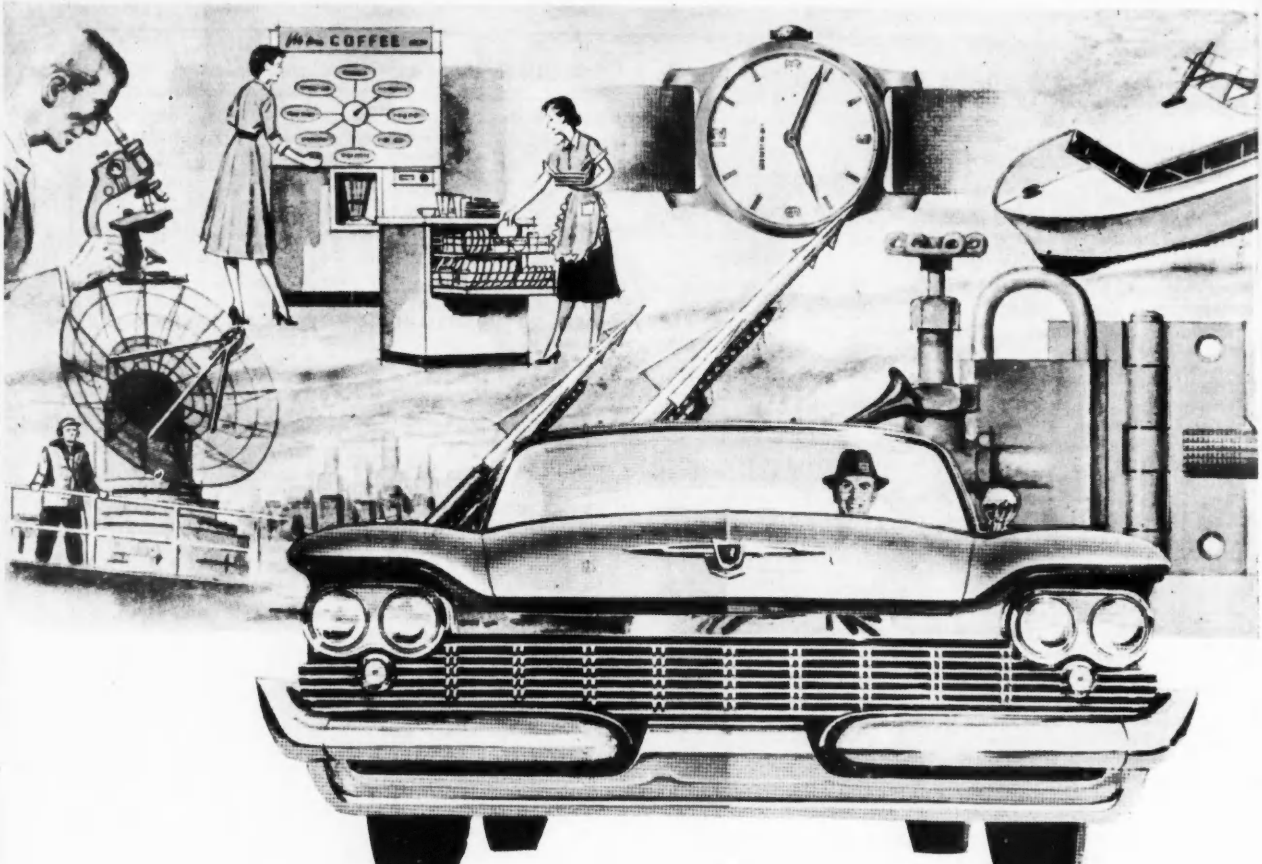
● Several management problems have plagued the company starting with the resignation of President Newberg and continuing with management stockholder suits.

● An anti-trust suit has been filed charging Chrysler with forcing dealers into dropping Studebaker Lark franchises with the threat of not letting them sell the Valiant.

Ford, as the second largest producer, has undergone a complete reorganization in the last five years. Sales in 1960 were down by 2.2% and profits were off by 5% from 1959. The lower compact Falcon and Comet automobiles accounted for 37% of total passenger car sales in 1960 which was a tremendous jump from 6% in 1959. The Falcon has shown exceptionally well in compact sales and now ranks first by a slim margin over the Rambler. The Ford Futura is being released shortly in order to compete with the Chevrolet, "Monza".

● A complete new management philosophy has transformed Ford from an autocratic giant into a market conscious and flexible organization. More vertical and horizontal integration, plus reorganization of some divisions will show up in profits this year. Foreign operations have greatly enhanced Ford's outlook — with a 78% ownership of Ford of Canada and a 90% ownership of Ford of England; these markets will be strengthened considerably.

● Outlook for 1961 is *(Please turn to page 221)*



Evaluating 1961-62 Outlook for
AUTO ACCESSORIES
—Near term —longer term

By GEORGE E. WINES

- **Problems met—and to be faced—shifts in production and other cancellations**
- **What earnings from diversification—operations abroad—and under business recovery at home?**
- **Appraisal of position and outlook for the individual companies—their financial strength and weakness—earnings-dividend outlook**

DESPITE a relatively good year for automotive producers, which saw domestic passenger car output rise almost 20% over 1959 and a moderate gain in truck production, the year 1960 was a discouraging period for manufacturers of auto components. Combined results of the five major car makers last year reveal an increase of 9% in dollar sales and 4% in net income. However, tabulation of a representative list of major parts companies shows a decline on average of 4% in sales and 27% in profits. Although a number of parts firms were able to achieve higher sales, only a very few (such as **Champion Spark Plug** and **Sheller Mfg.**) could escape the decline in profits. The parts manufacturers, while registering a much better profits gain than general industry in the recovery year 1959, failed to match the performance of their automotive customers in that year either.

Paradoxically, diversification efforts of auto parts concerns in recent years were partially responsible for their adverse profits trend, inasmuch as a number of industries now associated with them (including agricultural and construction equipment, certain industrial equipment, appliances, boating, aircraft parts and others) fared worse than the automotive industry.

Of course, there were many other factors which

Comparative Earnings and Dividend Records of Leading Auto Accessory Companies

	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	1st Quarter Earnings Per Share 1960	1st Quarter Earnings Per Share 1961	Divds. Per Share 1960	Divds. Per Share Indicated 1961 †	Recent Price	Div. Yield	Price Range 1960-61
Borg-Warner	$4.36	$3.01	$4.78	$ .93	$ .23	$2.00	$2.00	40	5.0%	48½-31⅞
Budd Co.	2.38	.96	3.09	.63	d	1.00	.60	15	4.0	27⅞-13¾
Champion Spark Plug	2.70	2.76	3.02	.71	NA	1.80	1.80	46	3.9	50⅞-34¼
Continental Motors	.80	.43	.92	.12	.09	.60	.40	10	4.0	11⅞- 7½
Dana Corp.	3.61[1]	3.26[1]	4.28[1]	1.70[2]	.76[2]	2.00	2.00	37	5.3	43⅜-31¼
Eaton Mfg.	3.60	2.23	3.73	.99	NA	1.80	1.80	36	5.0	46⅞-28½
Electric Auto-Lite	4.41	4.05	8.40	1.49	.53	2.65	2.65	64	4.1	67¾-44⅝
Electric Storage Battery	3.63	3.58	5.74	.81	.78	2.00	2.00	59	3.5	73 -43¾
Federal-Mogul-Bower-Bearings	2.52	1.99	2.65	.51	.50	1.40	1.40	32	3.3	40⅜-25¼
Kelsey-Hayes Co.	4.88[1]	2.64[1]	6.89[1]	.51[2]	1.10[2]	2.40	1.60	33	4.9	50¾-30⅜
King-Seeley Thermos Co.	4.78[3]	4.66[3]	7.54[3]	.78[4]	.58[4]	1.50	1.25	23	5.4	26⅜-16⅝
Libby-Owens Ford Glass	5.13	4.18	5.16	1.31	.69	2.55	2.55	51	5.0	70½-46½
Midland-Ross Corp.	4.71	4.63	9.16	1.56	.61	3.00	3.00	51	5.8	59¾-48¾
Motor Wheel	.95	.10	2.02	.35	d.52	.75	—	17	—	23¼-11
Rockwell-Standard Corp.	3.56	2.41	4.18	.97	.40	2.00	2.00	32	6.2	38⅜-27
Sheller Mfg. Corp.	1.30	1.34	2.44	.55	NA	1.00	1.00	17	5.8	21¾-15⅜
Smith (A. O.) Corp.	5.57[3]	3.07[3]	6.41[3]	.50[4]	.24[4]	1.60[5]	1.60	35	4.5	53⅜-29⅛
Stewart-Warner	2.40	1.86	2.32	.59	41	1.35	1.40	27	5.1	33½-23
Timken Roller Bearing	5.60	3.60	5.00	1.79	1.50[7]	2.40	2.40	52	4.6	68¾-44¼
Young Spring & Wire	2.01[3]	d4.61[3]	d1.43[3]	d3.05[4]	.39[4]	[6]	—	25	—	37½-19¼

†—Based on latest dividend reports.
d—Deficit.
NA—Not Available.

1—Year ended August 31.
2—6 months ended Feb 28.
3—Year ended July 31.

4—6 months ended Jan. 31.
5—Plus stock.
6—5% in stock.
7—Estimated.

Borg Warner: Diversification moves have reduced auto parts business to roughly one-third of total sales. Company is an important producer of appliances, oil well supplies as well as air conditioning and building equipment. **B4**

Budd Co.: Produces body components for five major auto companies as well as wheels, hubs and drums for all types of trucks, buses, trailers and passenger cars. **C4**

Champion Spark Plug: Company makes more than 350 types, sizes and adaptations of spark plugs which are sold primarily in the replacement market for use in automobiles and trucks. **A2**

Continental Motors: One of the largest independent producers of internal combustion engines ranging in size from 1½ to 1,040 horsepower. Military business accounts for close to half of total sales. **C4**

Dana Corp.: Manufacturer of chassis frames, axles differentials, universal joints, transmissions, etc., for major auto and truck producers. Original equipment parts contribute roughly 75% of overall sales. **B4**

Eaton Mfg.: Leading maker of truck axles and transmissions. Passenger car business also important. Diversification efforts continuing into other fields, including marine engines and tire valves. **B4**

Electric Auto-lite: Original equipment automotive business accounts for 45% of sales; replacement business 26%. Recent acquisitions and dispositions have materially altered former markets and product mix. **B4**

Electric Storage Battery: A leader in all types of packaged power, including auto storage batteries, flashlight batteries, fuel cells, electric trucks. Automotive batteries make up about one-third of sales. **B2**

Federal-Mogul-Bower Bearings: Automotive business accounts for largest portion of revenues (40 - 50%) followed by farm-implement, earthmoving and road-building industries. Activities well diversified. **B4**

Kelsey-Hayes Co.: Automotive and farm equipment such as wheels, brakes, drums, etc., take about two-thirds of sales with remainder made up largely of aircraft parts. Government work important. **B4**

King-Seeley Thermos: Recent merger with American Thermos Products places company largely in consumer goods field, with auto parts (such as instrument panels, electric clocks, gauges, etc.) accounting for some 20% of total business. **B4**

Libbey-Owens-Ford Glass: Automotive glass, with General Motors the principal customer, accounts for some two-thirds of overall volume. Recent award by G.M. of glass contract to competitor suggests possibility of reduced profit margins in future. **A4**

Midland-Ross Corp.: Mergers and acquisitions in recent years have brought company into many diverse fields. Automotive business, now about 40% of total sales, will account for even smaller share if proposed merger with Industrial Rayon is consummated. **C4**

Motor Wheel Corp.: Supplies wheels, hubs, brake drums and related items to automotive and farm equipment industries. About one-third of total volume derived from air conditioning equipment, power lawn mowers, snow throwers, etc. **C4**

Rockwell-Standard Corp.: Supplies transmissions, axles, bumpers, brakes and other products for commercial vehicles (45% of total volume), passenger cars (26%) and farm equipment (8%). Other lines account for remainder. **B4**

Sheller Mfg.: Dominant producer of steering wheels. Also makes mechanical rubber goods, steel stampings, cork and other products. Auto industry takes some 80% of overall sales. **B4**

Smith (A. O.): Automotive products such as passenger car and truck frames make up 40% of total business. Other products include equipment for the oil, nuclear and aeronautical fields and water heaters. **B4**

Stewart-Warner: Original equipment passenger car and truck business accounts for 20% of sales. Other important activities include lubricating equipment, industrial casters, instruments and electronics. **B4**

Timken Roller Bearing: Large, strongly established manufacturer of tapered roller bearnings. Company produces steel which accounts for one-third of sales. Automotive industry is major customer. **A4**

Young Spring & Wire: Major supplier of cushion spring products for the automotive industry. Makes metal dump bodies for trucks, power loaders, etc. Electronics and defense business also important. **C3**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

caused reduced sales and narrowing profit margins. Many components firms with fiscal years ending prior to December, 1960, experienced severe hardships in their earlier interim fiscal periods as a result of the steel strike. Included in this category were **Dana Corp., Kelsey-Hayes, A. O. Smith** and **Young Spring and Wire.** Other firms with normal calendar years, notably **Budd Co.** experienced adverse results in the first quarter of 1960 as an aftermath of the steel strike.

During 1960, compact cars accounted for a much larger portion of total domestic production than in 1959. This not only caused car manufacturers to order smaller and less complex parts priced well below standard components but also in many cases resulted in narrower profit margins for the equipment producers. **Eaton Mfg., Federal-Mogul-Bower-Bearings, Libbey-Owens-Ford, Motor Wheel** and several other firms were among those ascribing part of their adverse results to this trend. Moreover, introduction of new compact models in a number of instances called for unusually severe changes in production facilities in order to process the smaller parts.

First Quarter 1961 Sales and Profits Down Sharply

With auto production in the first quarter off 41%

from the corresponding period of 1960, and truck output down 31%, the great majority of parts companies will undoubtedly report very poor results for this period. **Dana Corp.,** in the fiscal quarter ended February 28, reported a 26% decline in sales and a drop of 65% in profits. Net income of **Kesley-Hayes** in the same fiscal quarter was less than one-third that of the corresponding year earlier period on a reduction of 11% in sales.

Electric Storage Battery's results in the March quarter were relatively good, reflecting the company's large stake in the replacement field as well as consumer goods and other areas where demand has held up well. Sales were up slightly and net income was down only 3%. However, it must be remembered that the company's first quarter operations benefited from acquisition of the alkaline storage battery business of McGraw-Edison Co. in August, 1960.

Rockwell-Standard, which is heavily dependent upon the passenger car and truck manufacturers, reported first quarter earnings down 59% from the March, 1960 interval with sales off 34%.

Comprehensive Statistics Comparing the

Figures are in million dollars except otherwise stated.	Borg-Warner	Budd Co.	Champion Spark Plug	Continental Motors
CAPITALIZATION:				
Long Term Debt (Stated Value)	$ 16.8	$ 22.5	—	$ 1.6
Preferred Stocks (Stated Value)	$ 14.2	$ 11.4	—	—
No. of Common Shares Outstanding (000)	8,923	4,346	6,064	3,300
Capitalization	$ 76.2	$ 55.6	$ 10.1	$ 4.9
Total Surplus	$287.0	$ 94.0	$ 60.5	$ 46.0
INCOME ACCOUNT: Fiscal Year Ending	12/31/60	12/31/60	12/31/60	10/31/60
Net Sales	$586.8	$350.0	$100.6	$138.1
Deprec., Depletion, Amort., etc.	$ 15.5	$ 8.6	$ 1.6	$ 2.3
Income Taxes	$ 28.6	$ 5.5	$ 17.0	$ 1.2
Interest Charges, etc.	—	$ 1.1	—	$ .4
Balance for Common	$ 26.8	$ 4.2	$ 16.7	$ 1.4
Operating Margin	8.9%	2.6%	32.3%	1.9%
Net Profit Margin	4.6%	1.3%	16.6%	1.0%
Percent Earned on Invested Capital	8.0%	3.7%	23.6%	3.0%
Earned Per Common Share	$ 3.01	$ .96	$ 2.76	$ .43
Cash Earnings Per Share	$ 4.78	$ 3.09	$ 3.02	$ .92
BALANCE SHEET: Year Ended	12/31/60	12/31/60	12/31/60	10/31/60
Cash and Marketable Securities	$ 55.0	$ 20.9	$ 40.6	$ 8.7
Inventories, Net	$123.3	$ 34.0	$ 21.9	$ 28.8
Receivables, Net	$ 88.4	$ 31.2	$ 8.2	$ 15.6
Current Assets	$266.8	$ 89.4	$ 71.2	$ 56.7
Current Liabilities	$ 70.4	$ 31.3	$ 18.7	$ 22.9
Working Capital	$196.4	$ 58.1	$ 52.5	$ 33.8
Current Ratio (C. A. to C. L.)	3.7	2.8	3.8	2.4
Fixed Assets, Net	$116.0	$ 89.5	$ 17.4	$ 16.1
Total Assets	$427.2	$182.6	$ 89.4	$ 76.7
Cash Assets Per Share	$ 6.17	$ 4.83	$ 6.70	$ 2.64
Inventories as Percent of Sales	21.0%	9.7%	21.8%	20.8%
Inventories as % of Current Assets	46.2%	38.0%	30.8%	50.8%

*—Statistical data on other leading companies have not been included because recent balance sheet figures have not yet been released.

Outlook Over the Remainder of 1961

Recent evidence of improved auto sales and somewhat increased activity in other industries suggest the possibility that the business recession has bottomed out. However, it may take considerable time before strong recovery will be witnessed. Although retail deliveries of domestic-built new cars in the first ten days of April were slightly ahead of the similar period in March, the improvement is largely seasonal and sales so far this year continue to run about 20% below those in the similar period of 1960. Moreover, compact cars represent a considerably larger portion of current sales than they did a year ago. Of course, auto production in the March quarter of this year was substantially below the rate of sales, and this accomplished a necessary reduction in burdensome inventories. Production of cars in the second quarter, therefore, could increase by almost 300,000 units over the 1.2 million cars assembled in the first quarter. However, such production would still be considerably below output of a year ago. The outcome of coming labor negotiations in the auto industry will have an important effect on car production in the final half. **Thus, it is evident that while auto parts producers can expect some improvement in their business relative to the very poor results of the first quarter, year-to-year earnings comparisons are likely to continue lower for some time unless a more dynamic upward trend in auto sales and business recovery is witnessed. For the entire year, profits of the components producers can be expected to fall substantially below the depressed results that were reported in 1960.**

Dividend Rates Subject to Reduction

Under the aforementioned circumstances some companies may be forced to cut dividends. ● **A. O. Smith** reported earnings equal to $0.08 per share in the first quarter of its current fiscal year and $0.16 in the second fiscal period. In view of the current quarterly dividend rate of $0.40, it is questionable how long this can be maintained if earnings fail to improve materially.

● **Sheller Mfg.** earnings in the third and fourth quarters of last year failed to cover the current quarterly dividend rate of $0.25 per share and profits may again be below this amount in the first quarter of 1961. Although the company has a strong financial position, a reduced dividend may be forthcoming if profits do not improve.

● Continuance of the $0.50 quarterly dividend by **Rockwell Standard** is also questionable in view of first quarter earnings at the rate of $0.40 per share. However, finances are strong, and a similar dividend rate was maintained in 1958 when earnings for the entire year declined to $1.75 per share. Management is confident that earnings for all of 1961 will cover the annual dividend rate.

● Other companies which reported earnings below the dividend rate in recent periods are **Midland-Ross, Kelsey-Hayes** (dividend already reduced but subject to further cut), **Dana Corp., Continental Motors** (dividend reduced in January but still vulnerable) and **Budd Co.** (dividend reduced in January but company has reported losses in each of the past three quarters).

Position of Leading Auto Accessory Companies *

Continental Motors	Eaton Mfg.	Electric Autolite Co.	Electric Storage Battery	Federal-Bearings Mogul-Bower	Libbey Owens-Ford Glass	Midland-Ross Corp.	Rockwell-Standard Corp.	Stewart Warner	Tinken Roller Bearing
$ 1.6	—	$ 17.7	$ 2.5	—	—	$ 15.0	—	—	$ 18.0
—	—	—	—	—	—	$ 13.9	—	—	—
3,300	4,813	1,481	1,685	4,884	10,469	682	5,374	3,315	5,327
$ 4.9	$ 4.8	$ 25.1	$ 19.6	$ 24.4	$ 52.3	$ 32.3	$ 26.9	$ 8.6	$ 61.9
$ 46.0	$115.8	$100.7	$ 66.2	$ 40.6	$144.6	$ 24.3	$105.3	$ 44.6	$125.7
10/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$138.1	$253.4	$221.8	$148.1	$118.5	$294.0	$118.0	$248.3	$107.3	$244.8
$ 2.3	$ 7.2	$ 6.4	$ 3.6	$ 3.2	$ 13.7	$ 2.3	$ 9.5	$ 1.5	$ 7.5
$ 1.2	$ 10.0	$ 6.8	$ 5.4	$ 9.9	$ 52.1	$ 4.8	$ 13.4	$ 6.7	$ 21.5
$ .4	—	$ .7	$ .5	—	—	$ 1.0	—	—	$ 1.1
$ 1.4	$ 10.7	$ 6.0	$ 6.0	$ 9.7	$ 43.7	$ 3.1	$ 12.9	$ 6.1	$ 19.1
1.9%	7.8%	5.8%	7.4%	15.9%	29.9%	7.7%	9.8%	10.9%	16.7%
1.0%	4.2%	2.7%	4.0%	8.2%	14.8%	3.3%	5.2%	5.7%	7.8%
3.0%	8.9%	5.5%	7.2%	14.9%	22.2%	9.4%	9.8%	11.6%	11.3%
$ .43	$ 2.23	$ 4.05	$ 3.58	$ 1.99	$4.18	$ 4.63	$ 2.41	$ 1.86	$ 3.60
$ .92	$ 3.73	$ 8.40	$ 5.74	$ 2.65	$ 5.16	$ 9.16	$ 4.18	$ 2.32	$ 5.00
10/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60	12/31/60
$ 8.7	$ 16.1	$ 29.1	$ 4.1	$ 9.7	$ 50.5	$ 7.2	$ 16.5	$ 25.1	$ 18.0
$ 28.8	$ 39.6	$ 42.4	$ 35.8	$ 25.8	$ 35.4	$ 20.3	$ 33.9	$ 21.1	$ 82.8
$ 15.6	$ 22.1	$ 26.9	$ 25.7	$ 11.4	$ 14.3	$ 13.5	$ 16.8	$ 14.2	$ 21.9
$ 56.7	$ 79.8	$100.6	$ 66.7	$ 48.5	$100.3	$ 41.1	$ 78.4	$ 60.5	$122.8
$ 22.9	$ 26.9	$ 21.0	$ 19.7	$ 7.4	$ 24.7	$ 12.1	$ 17.6	$ 17.5	$ 36.9
$ 33.8	$ 52.9	$ 79.6	$ 47.0	$ 41.1	$ 75.6	$ 29.0	$ 60.8	$ 43.0	$ 85.9
2.4	2.9	4.7	3.3	6.5	4.0	3.4	4.4	3.4	3.3
$ 16.1	$ 63.4	$ 42.0	$ 35.9	$ 21.4	$ 61.2	$ 22.4	$ 58.0	$ 12.4	$ 97.4
$ 76.7	$147.6	$146.8	$105.0	$ 72.6	$226.3	$ 68.8	$149.4	$ 75.4	$224.6
$ 2.64	$ 3.35	$ 19.70	$ 2.42	$ 2.00	$ 4.82	$ 10.62	$ 3.07	$ 7.78	$ 3.38
20.8%	15.6%	19.1%	24.1%	22.7%	12.0%	17.2%	13.6%	20.0%	34.7%
50.8%	49.6%	42.4%	53.7%	53.2%	35.4%	49.5%	43.3%	35.0%	67.4%

Diversification Efforts, Expansion Abroad Continuing

With the trend toward further integration by car manufacturers continuing—as witnessed by the recent Ford acquisition of Electric Autolite's spark plug and battery business—many parts companies are continuing their search for more profitable operations, both within and outside the automotive industry.

● **Electric Autolite** has taken many steps in the past year to lessen its dependence on the automotive industry. Acquisitions included Hiller Aircraft, a leading factor in the light helicopter field; Marshalltown Manufacturing, a manufacturer of industrial gauges, thermometers and hydrometers and Equitable Leasing Corp., a lessor of various types of business and industrial equipment. The company also negotiated additional license agreements to manufacture Autolite products overseas and such activities are now conducted in eleven countries abroad.

● **Eaton Mfg.** recently acquired Dill Mfg. Co., a producer of tire valves. Although this acquisition is closely allied to the automotive industry, it should help broaden the company's markets and improve its product mix. A more pronounced step toward diversification was taken in late 1960 when Eaton took over Dearborn Marine Engines, a leading producer of inboard engines for pleasure boats. During 1960 the company introduced the Powernaut drive, combining the best features of conventional inboard engines with those of the outboard type. Foreign expansion in 1960 consisted mainly of a new plant in Brazil for the production of truck transmissions.

● **Federal-Mogul-Bower Bearings** made important progress toward expansion of foreign operations through purchase of a majority interest in Renault's sleeve bearing manufacturing plant in France. The plant is the largest manufacturer of engine bearings in France.

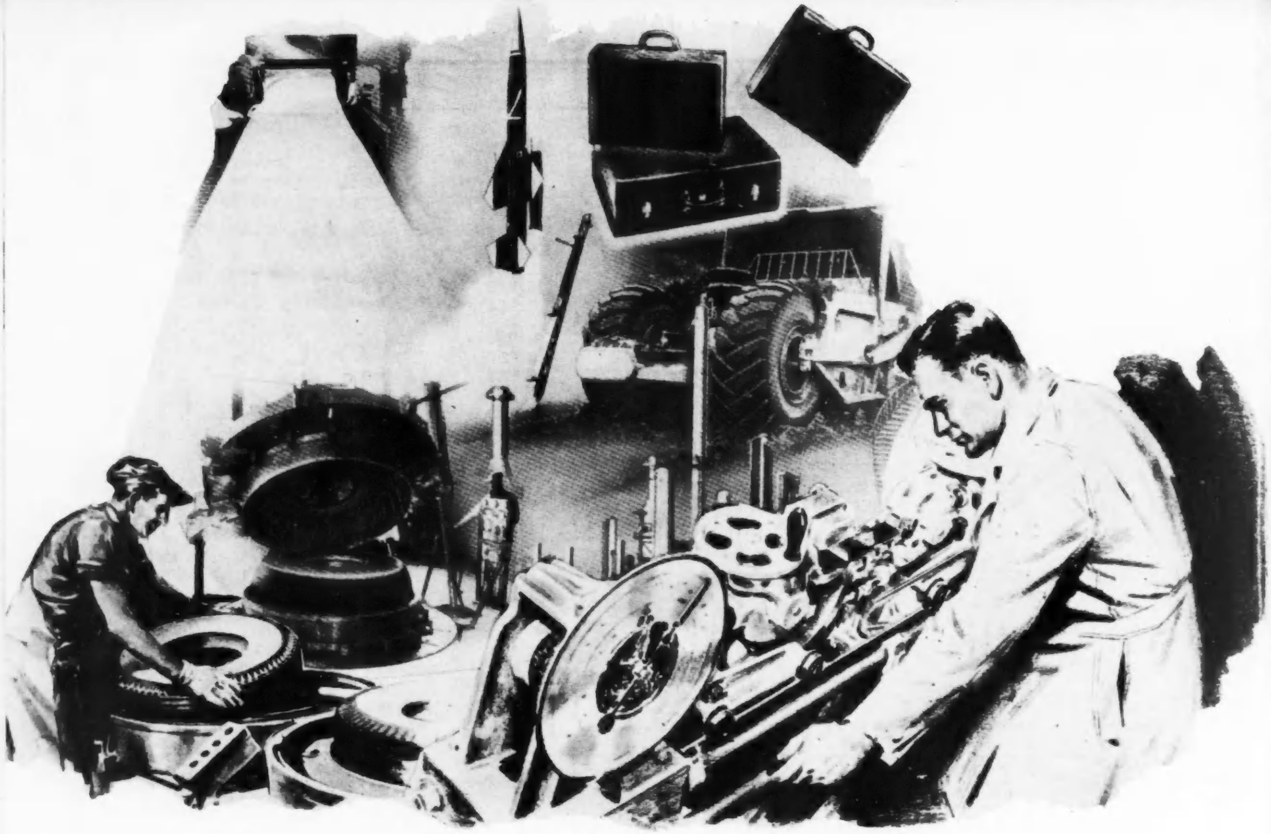
● **Kelsey-Hayes** in late 1960 negotiated the purchase of Gunite Foundries, a producer of heavy duty steel castings for the agricultural, road building and automotive industries as well as cast steel wheels and iron drums for heavy duty trucks, trailers and buses.

● **King-Seeley Thermos** in December, 1960 merged with American Thermos, with plants in Canada and England in addition to the United States. The newly acquired company, with sales of $31 million compared with $46 million for King-Seeley, produces vacuum insulated ware, insulated containers and other items.

● **Timken Roller Bearing,** which completed acquisition of its British affiliate in 1959 at a cost of $31 million, is continuing expansion of overseas markets and now has new plants in Australia, Brazil and France.

How Individual Companies Fared in 1960 and Early 1961

Intense competition and reduced demand by agricultural and industrial equipment customers caused earnings of **Continental Motors** to fall to the lowest level in more than *(Please turn to page 220)*



WHERE DO THE RUBBERS STAND TODAY?

By MICHAEL CONDON

► **Appraising the earnings prospects for the individual companies in the home market — in the light of the new increase in the cost of labor — on top of unimpressive earnings.**
► **What enhancement for their position abroad under competitive conditions existing there from smaller companies**
► **Companies where patience will reward the investor — those having a more speculative flavor — those that are likely to decline further**

THE nation's tire and rubber industry presents investors with a curious mixture of long range hope and short term pitfalls. All through the fifties, investors continually upgraded the tire manufacturers because of the excellent strides the companies made in changing the nature of their business. From simple producers of rubber products, most of them became major chemical companies, specializing in synthetic products ranging from artificial rubber to plastics and foam. Simultaneously, the automobile population was growing by leaps and bounds, apparently assuring the industry of an ever-widening market for replacement products.

Everything that investors were looking for five and six years ago has come to pass, except for one thing—earnings have not improved. And despite the broadened scope of operations and the apparent savings resulting from the use of synthetics, there has been a constant diminishing of profit margins for the rubber companies. What is perhaps most disturbing along these lines is the experience of the first quarter of 1961. Earnings, of course, were down, but in itself the decline is not serious in view of the general recesson that struck the entire economy. **But it had been supposed the reduced reliance on original equipment tires and the consequent increased importance to the companes of the replacement market would tend to raise profit margins. Yet, exactly the opposite happened.**

U.S. Rubber's sales, for example, fell only 13.5% from the first quarter of 1960 while earnings plummeted 55% to 68¢ per share from $1.51 a year earlier. Since the biggest sales drop came in original equipment as a result of the cutback in car production it is apparent that a big part of U.S. Rubber's profitability is still tied to that market.

Roughly the same situation existed at **Goodrich,** where a 13.8% drop in sales led to a 36% decline in

Statistics of Leading Tire & Rubber Companies

	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	1st Quarter Earnings Per Share 1960	1st Quarter Earnings Per Share 1961	Dividends Per Share 1960	Dividends Per Share Indicated 1961 †	Recent Price	Div. Yield	Price Range 1960-61
Armstrong Rubber	$3.47	$2.91	$5.26	$ .53[6]	$ .46[5]	1.05	1.40	41	3.4%	47 -28⅛
Firestone Tire & Rubber	$2.45[1]	$2.41[1]	$4.10[1]	$ .51[2]	$ .50[2]	$1.00[4]	$1.00	37	2.7%	46⅝-32¾
General Tire & Rubber	4.98	4.07	7.00	1.16[3]	.94[3]	1.00	1.00	66	1.5	81⅜-41⅝
Goodrich (B. F.)	4.18	3.33	5.97	1.01	.63	2.20	2.20	56	3.9	89½-45
Goodyear Tire & Rubber	2.29	2.10	3.57	.51	N.A.	.90[4]	.90	36	2.5	47⅜-32⅝
Lee Rubber & Tire	1.78[1]	.38[1]	1.35[1]	.19[2]	d.12[2]	1.20	.60	17	3.5	24⅛-14⅜
Seiberling Rubber	1.72	d.08	1.86	d.21	N.A.	.87	.50	14	3.5	19¾-10¼
U. S. Rubber	5.30	4.44	9.57	1.51	.68	2.20	2.20	54	4.0	64 -41¼

†—Based on latest dividend reports.
d—Deficit.
N.A.—Not available.

1—Year ended Oct. 31.
2—Quarter ended Jan. 31.
3—Quarter ended Febr. 28.

4—Plus stock.
5—1st fiscal year ended 12/31/59 and 1960.

Company Ratings

	RATINGS		RATINGS
Armstrong Rubber	B4	Goodyear Tire & Rubber	A4
Firestone Tire & Rubber	A4	Lee Rubber & Tire	C4
General Tire & Rubber	B4	Seiberling Rubber	C4
Goodrich (B.F.)	A4	U.S. Rubber	B4

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from lows. 4—Lower earnings trend.

net income. Hence it appears that the long line of static earnings reports will continue through 1961, at least. Actually, there has been little or no earnings progress whatsoever for most of the companies since 1954, and for some the bleak history even stretches back as far as 1950.

Price Structure Is The Villain

The reason for the industry's profits problems are easy to find, although obviously they have not been easy to solve. **As it became more and more obvious to the companies that the replacement market was their biggest field, a competitive struggle for supremacy developed that has made a shambles of both the price structure and profit margins. For, while frequent price wars beset retail operations, labor unions kept up their relentless pressure for wage increases, constantly raising the cost base. Since labor costs represent roughly 30% of sales throughout the industry, the effect of increases in this area without commensurate raises in prices has been severe.**

Goodyear's profit margins were 13.6% of sales in 1950, yet after a decade of cost-cutting, modernization and diversification, they were only 12.4% in 1960. **Goodrich** has slipped from profits equal to 17.6% of sales in 1950 to roughly 10% in 1960; **General Tire** from 12.8% to about 7% over the same time span. **Firestone** and **Armstrong Rubber,** on the other hand, have managed to improve their margins slightly over the period, although not by any sensational amounts.

Another factor that has contributed to the static earnings trend has been the sharp competition among new products, which has led to only small profits while sapping away the profit potential of the bread-and-butter items. Tubeless and blowout-proof tires have been more successful in the original equipment than in the replacement market, but their introduction has downgraded the value of conventional tires. This factor has contributed to extensive discounting and a wobbly price structure for the high-profit margin standard items. Moreover, the existence of a confusing number of brand names and types of tires encouraged small, independent producers to enter the discount market with inferior but salable products, since the average buyer could not differentiate between good and bad quality simply by brand name.

A Look Ahead

If the past has been confusing, little enlightenment exists in the indicated pattern of the near future. Demand will increase in the replacement market, of course, but control over original equipment business will still be out of the hands of the tire companies. They will sell tires only to the extent that the auto industry produces cars. Hence, even though the latter half of 1961 seems likely to be brighter than the first half, it is doubtful whether most companies will show any earnings improvement for the year.

Automobile production will pick up from its slow start, but there are still no signs of an auto boom. Moreover, what boom there may be will come from the compact cars, and these take less rubber per tire than the standard models. Over the entire year, therefore, original equipment sales are likely to decline between 15% and 20%. Replacement demand, on the other hand, will continue to grow, probably between 3% and 4%. This increase, in the bigger part of the market, should substantially offset the new equipment decline, but nothing more.

All in all, most of the factors that led to a disappointing 1960 still exist for 1961, while there will not be the heady stimulus of a big new car market. As a possible offset, however, this year's wage negotiations have been relatively favorable. Although Firestone just agreed to raise wages 14½¢ an hour for tire makers, and 7½¢ for other rubber workers, Goodyear's agreement contained no wage increase clause, *(Please turn to page 229)*

FOR PROFIT AND INCOME

Chewing Gum

Makers of chewing gum are basically favored by strong population growth in the younger age groups. After years of "holding the line", they have benefited from a 9.1% boost in wholesale selling prices initiated about a year ago by Wrigley, the largest company. Both before and subsequent to the price increase, American Chicle, second largest, topped Wrigley like a circus tent as a result of increasing producing efficiency and introduction of higher-margined non-gum items such as Clorets chlorophyll mints and Rolaids, a stomach-acid neutralizer. Earnings have risen for nine consecutive years, considerably more than doubling over the period to a record $3.35 a share last year. They will be higher this year, perhaps to the area of $3.55-$3.65 a share. Now at a $2.00 total ($1.40 regular), dividends have kept pace and may be raised again later this year. Around 84, or over 23 times likely 1961 earnings, the stock is by no means cheap but neither is it extremely high as growth issues go in today's market. It still has considerable investment appeal on a strictly long-pull view.

Candy

Producers of popular-priced chocolate candies also have the advantage of a steadily growing market, plus a downward trend in cocoa bean costs since 1958 as a result of excessive world production. Average prices of this main ingredient figure to be lower again this year. The outstanding company is Hershey Chocolate. It netted a record $7.69 a share last year, up from 1959's sharply-improved $6.35; and might earn around $8.00 or more this year. Dividends are at $4.00, including $1.00 extra. At 142, around 18 times earnings, the stock has had a major rise, but could go further in time, and a split is possible. A cheaper candy issue is Brach & Sons, listed on the Midwest Exchange. Adjusted for a 6-for-1 split, earnings rose to a peak $2.74 a share last year, from 1959's $2.47, have more than tripled since 1954, and might reach $3.00 or so this year. Dividends are at a $1.24 rate. Around

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Beech-Nut Life Savers	Quar. Mar. 31	$ .67	$ .48
Bestwall Gypsum	Quar. Mar. 31	.32	.23
Champlin Oil & Refining	Quar. Mar. 31	.71	.43
Logan (Jonathan) Inc.	Quar. Mar. 31	.24	.18
Ohio Edison Co.	12 mos. Mar. 31	2.11	2.04
Pfaudler Permutit	Quar. Mar. 31	.76	.62
Dr. Pepper Co.	Quar. Mar. 31	.08	.03
Manhattan Shirt	Quar. Mar. 31	.20	.13
American Enka	12 weeks Mar. 26	.46	.39
Heller (Walter E.) & Co.	Quar. Mar. 31	.75	.68

41, the stock is in the vicinity of 14 times earnings, yielding about 3%, and has further growth possibilities over a period of time.

And Snacks

As with gum and candy, there is an expanding market for a variety of "snacks", including nuts, pretzels, etc. Two of the slow-growth snuff companies, making added use of their existing extensive distribution facilities, have gone into it for diversification, with promising possibilities. Third in snuff sales, Helme (Geo. W.) Co. has added cookies, pretzels and nuts via acquired subsidiaries. As a result sales have almost doubled in recent years but margins have narrowed because they are lower on the new lines than the old. Largely due to non-recurring costs of a plant modernization program, profit was pared to $2.31 a share last year, from 1959's markedly improved $2.55. It should be higher this year. Dividends are on a $1.75 basis, including $0.15 extra. Getting some market sponsorship for the first time in many years, the stock recently spurted to a postwar high of 40, trimming the yield to 4.4%. Probably the additional potentials are modest—as would be so for most stocks if they sold in reasonable relation to earnings and dividends.

U. S. Tobacco

Biggest snuff maker, this company also has a stake in cigarettes (King Sano, Encore and other brands), and acquisitions, beginning in the summer of 1959, have added nut products, candy bars, pencils and pens. Here too, sales have gained, margins narrowed. There have also been special introductory costs on new lines. Profit was off last year to $1.75 a share, from 1959's peak $1.91. The latter may well be exceeded this year. Dividends ($1.20 regular) are at a $1.35 total. Around 30, the stock yields 4.5%. It strikes us as the best in the so-called snuff group, with snuff now about half of sales, other tobacco lines about 15%, new non-tobacco lines the balance. On a guess-estimate, the potential for appreciation within a year or two might be something on the order of 15%-30%.

Take Profits

Decca Records was recommended here some months ago at 33 and is now at 43. Continuity of big profit gains from the company's Universal Pictures subsidiary is not assured. We now advise profit taking . . . Harris-Intertype was recommended some time ago at 37 and is now at 63. The company's long-range outlook remains favorable, but the stock appears high enough. Profit taking is suggested.

Inside The Market

Affected by increased international tension at this writing, as well as by need for a degree of technical correction anyway, the market is highly mixed and hesitant. Stock groups currently performing better than the general list are mainly apparel, farm machinery, food brands, department stores, metal fabrication, domestic oils, shoes, sulphur and utilities. Groups faring worse than the market include aluminum, auto parts, coal, drugs, electrical equipment, machinery, rail equipment, railroads, steels, sugar and tires.

Strong Stocks

Individual issues meeting above-average demand at this time include Babcock & Wilcox, Columbia Broadcasting System, Continental Oil, Corn Products, Disney, Fawick, General Tire, Georgia-Pacific, Heller, Hudson Bay Mining, International Nickel, Magnavox, Maytag, Pfizer, Sperry Rand, Standard Oil of Indiana (previously recommended here), Transamerica, United Gas and Van Raalte.

Kaiser Aluminum

Peak earnings of this company were $2.87 a share in 1955. Profit fell each subsequent year excepting 1960, when it gained three cents a share to $1.20. It was off 60% from a year ago in the 1961 first quarter and may be off at least 10% for the full year, despite later improvement. Certainly this is not "growth" and the limiting factor in the long-pull picture is the prospect that supplies of aluminum will remain more than ample, relative to expansion of demand; and that especially keen competition will continue in fabricated products, which provide well over half of Kaiser's sales. Selling around 40 times likely 1961 earnings, at 45½, the stock is priced as if strong long-term profit growth could be taken for granted. In our opinion, it is overvalued.

A Good Oil

Among the major international companies, Standard Oil of California gets about 55% of profits from U.S. operations, most of the balance from the Middle East in dividends on a 30% interest in Arabian American Oil Co. The company has for some time been stressing development of oil reserves in the Western Hemisphere, a cost-cutting program and expansion of its more profitable natural gas and petrochemical business. It earned $4.21 a share last year, against 1959's slightly reduced $4.01, and may well net as much as $4.35 a share this year. The $2.00 dividend rate is secure. Stock extras of 5% each were paid in 1955, 1954, 1950 and 1949. Another may be possible within the next 12 months or so. Selling around 56 in a 1959-1961 range of 62⅛-40, the stock is believed to be a good investment value with potentials for substantial longer-range appreciation.

END

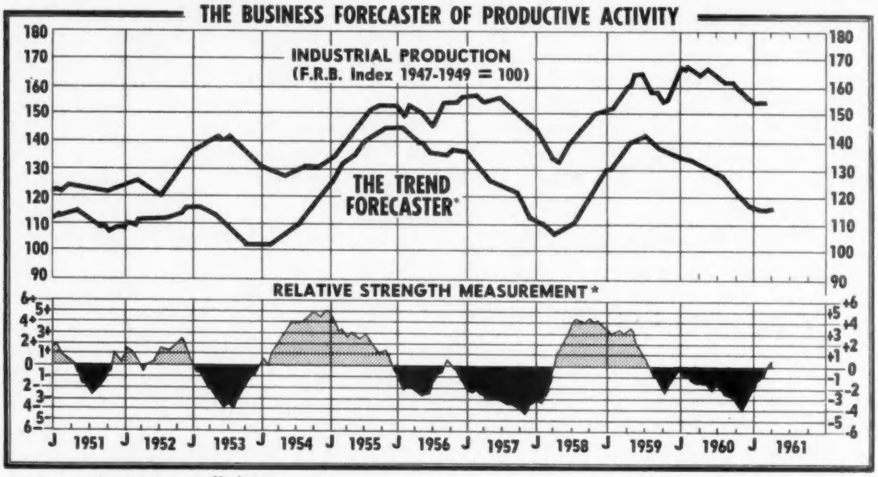
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
American Potash & Chemical	Quar. Mar. 31	$ .43	$ .54
De Vilbiss Co.	Quar. Mar. 31	.25	.64
Neptune Meter Co.	Quar. Mar. 31	.26	.53
Outboard Marine Corp.	Quar. Mar. 31	.18	.34
United Fruit	Quar. Mar. 31	.02	.32
Consolidated Laundries	12 weeks Mar. 25	.20	.31
N. Y. Chi. & St. Louis R.R.	Quar. Mar. 31	.37	.75
Reeves Bros., Inc.	Quar. Apr. 1	.07	.57
United Shoe Machinery	Quar. Feb. 28	1.40	1.50
Great Northern Rwy.	Quar. Mar. 31	.03	.39

the Business

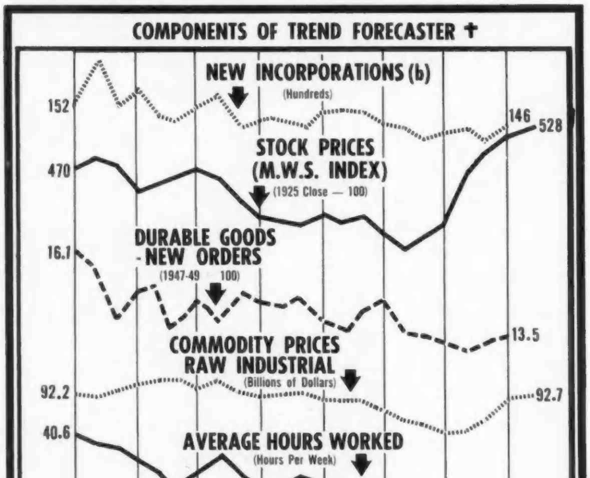
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

On the basis of the latest data, some of which is still tentative, the Trend Forecaster appears to have turned up last month, the first advance for this indicator after its long downward slide. The components of the Forecaster have continued to improve in the latest period with six of the eight indicators registering gains in the latest month. These include new orders, housing starts (which have risen sharply), hours worked, stock prices, new incorporations and raw material prices. Only nonresidential contract awards and liabilities of business failures (inverted), have continued to decline.

The Relative Strength Measurement now stands in plus territory, although it is still only slightly above the zero line. It has thus taken five months for the Measure to climb from last year's low to a positive position, the same length of time as it took after the 1957 low. The current Relative Strength reading is predicting a gradual rise in business in the months ahead, but no boom.

Analyst

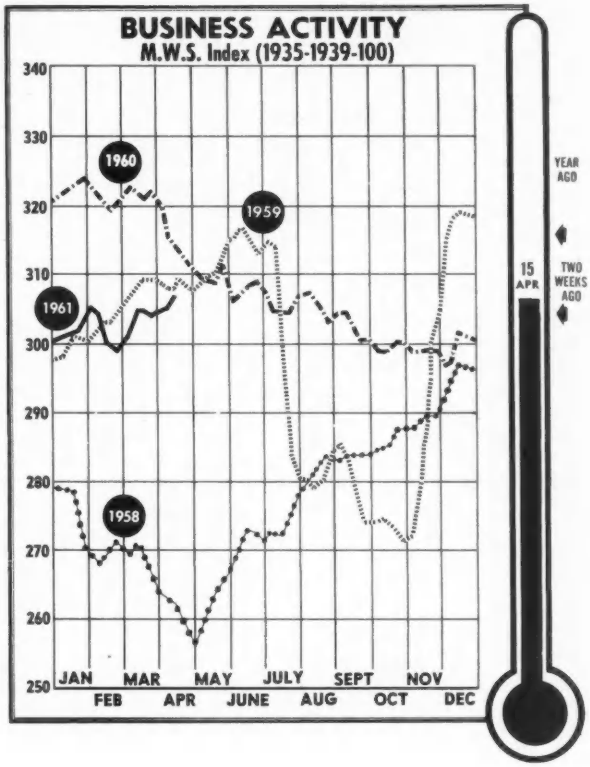
CONCLUSIONS IN BRIEF

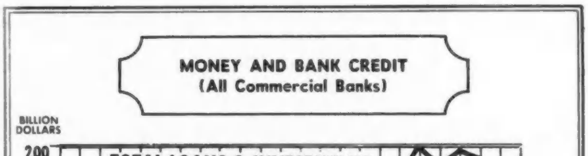
PRODUCTION — Industrial output is now in a broad, though gradual, upswing. Production of autos, steel, coal, paperboard, electric power all moving upward and further gains are in prospect this Spring.

TRADE — Bad weather in some sections affected retail sales last month but overall volume appeared to be well-maintained. Improved demand noted for hard goods, including autos and appliances. Look for moderate expansion in consumer buying, in line with recent and prospective gains in income.

MONEY & CREDIT — Bond yields have been little changed in recent weeks, with large new offerings counter-balancing Government efforts to lower long-term yields. Continued weight of new offers and Federal deficit financing later this year could tilt yields higher.

COMMODITIES — Sensitive prices have firmed on warlike moves in Cuba, Algeria. Underlying demand remains fundamentally healthy and near-term irregularity should be succeeded by further strength as business improves.





*Demand deposits of all banks plus currency outside the banks.

THE economy has begun to show signs of gradual improvement this spring after holding on an even keel in recent months. With the lows of the recession apparently behind us, we can now get a much better idea of the extent of the setback and the prospects for recovery.

Taking the nation's output of goods and services as a measuring rod, we find that the contraction has been quite moderate. The gross national product fell by only 1% from the $505 billion peak in the second quarter of 1960 to the $499.5 billion low of the first three months of this year. At first, one may wonder why such a mild setback should have aroused widespread fears regarding the economic outlook and stampeded the Administration into frantic efforts to stem the tide. However, it must be remembered that the gross national product is a broad measure that often tends to obscure individual trends. Thus some sectors of the economy—especially in housing and in consumer and business demand for hard goods—were suffering wide declines and contributing to mounting unemployment, which aroused concern among the public and the affected industries. At the same time, gains in such areas as government spending, net exports and individual outlays for services were acting as a counterbalance, accounting for the moderate nature of the overall readjustment.

At the present time, the previously strong sectors of the economy are continuing to advance while areas that were recently contracting are either

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Mar.	155	155	166
Durable Goods Mfr.	1947-'9-100	Mar.	154	153	175
Nondurable Goods Mfr.	1947-'9-100	Mar.	156	155	158
Mining	1947-'9-100	Mar.	126	126	126
RETAIL SALES*	$ Billions	Mar.	18.1	17.9	18.2
Durable Goods	$ Billions	Mar.	5.5	5.4	5.9
Nondurable Goods	$ Billions	Mar.	12.6	12.5	12.3
Dep't Store Sales	1947-'9-100	Mar.	143	145	138
MANUFACTURERS'					
New Orders—Total*	$ Billions	Feb.	29.1	28.5	30.6
Durable Goods	$ Billions	Feb.	13.4	12.9	14.8
Nondurable Goods	$ Billions	Feb.	15.7	15.6	15.8
Shipments*	$ Billions	Feb.	29.0	28.7	31.6
Durable Goods	$ Billions	Feb.	13.3	13.2	15.7
Nondurable Goods	$ Billions	Feb.	15.7	15.5	15.9
BUSINESS INVENTORIES, END. MO.*	$ Billions	Feb.	91.6	92.0	91.4
Manufacturers'	$ Billions	Feb.	53.6	53.7	53.9
Wholesalers'	$ Billions	Feb.	13.1	13.1	12.7
Retailers'	$ Billions	Feb.	24.8	25.1	24.8
Dept. Store Stocks	1947-'9-100	Feb.	158	161	160
CONSTRUCTION TOTAL—†	$ Billions	Mar.	54.7	54.5	54.4
Private	$ Billions	Mar.	37.6	37.3	39.3
Residential	$ Billions	Mar.	19.9	19.8	22.4
All Other	$ Billions	Mar.	17.7	17.5	16.9
Housing Starts*—a	Thousands	Mar.	1283	1187	1112
Contract Awards, Residential—b	$ Millions	Mar.	1371	870	1294
All Other—b	$ Millions	Mar.	1795	1366	1752
EMPLOYMENT					
Total Civilian	Millions	Mar.	65.5	64.5	64.3
Non-farm*	Millions	Mar.	52.2	52.2	52.8
Government*	Millions	Mar.	8.7	8.6	8.5
Trade*	Millions	Mar.	11.5	11.6	11.6
Factory*	Millions	Mar.	11.4	11.5	12.5
Hours Worked*	Hours	Mar.	39.3	39.1	39.9
Hourly Earnings	Dollars	Mar.	2.32	2.31	2.29
Weekly Earnings	Dollars	Mar.	90.71	89.86	90.91
PERSONAL INCOME*	$ Billions	Mar.	410	406	397
Wages & Salaries	$ Billions	Mar.	272	271	269
Proprietors' Incomes	$ Billions	Mar.	61	61	58
Interest & Dividends	$ Billions	Mar.	42	41	40
Transfer Payments	$ Billions	Mar.	33	31	28
Farm Income	$ Billions	Mar.	17	17	14
CONSUMER PRICES	1947-'9-100	Mar.	127.5	127.5	125.7
Food	1947-'9-100	Mar.	121.2	121.4	117.7
Clothing	1947-'9-100	Mar.	109.8	109.6	108.8
Housing	1947-'9-100	Mar.	132.5	132.4	131.3
MONEY & CREDIT					
All Demand Deposits*—u	$ Billions	Mar.	112.1	110.9	111.1
Bank Debits*—g	$ Billions	Mar.	98.4	97.7	95.6
Business Loans Outstanding—c, u	$ Billions	Mar.	32.0	31.2	31.0
Instalment Credit Extended*—u	$ Billions	Feb.	3.8	3.9	4.2
Instalment Credit Repaid*—u	$ Billions	Feb.	4.0	4.0	3.8
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Feb.	6.5	4.8	7.2
Budget Expenditures	$ Billions	Feb.	6.2	6.5	6.1
Defense Expenditures	$ Billions	Feb.	3.8	3.7	3.7
Surplus (Def) cum from 7/1	$ Billions	Feb.	(6.2)	(6.5)	(6.5)

PRESENT POSITION AND OUTLOOK

stabilizing or turning upward. As a result the recovery will probably gather momentum in the next few months. A wide variety of indicators buttress this conclusion. In the hitherto severely depressed auto and steel industries, improvement set in a good many weeks ago, and is continuing apace. Steel production is now running 35% above its low of four months ago and incoming orders are rising steadily, helped by bigger demand from such diverse sources as auto makers, construction, machinery as well as tool builders who have just reported a 38% increase in their March orders. Order backlogs on steel company books are rising, which means that delivery can no longer be as prompt as it has been. This in turn will force consumers to increase inventories, further stimulating demand. In the auto industry, dealers' sales have been increasing while their inventories have been reduced. As a result, auto makers are stepping up production and further gains are in prospect. Overall improvement in this field should be moderate however, as underlying demand is expected to remain well below last year's peaks.

The recent spurt in home building has come as a welcome surprise to many business observers. Housing starts in March rose to 1,283,000 units at seasonally adjusted annual rates, almost as high as the advanced levels of a year ago, and a notable improvement from the December, 1960 low of 979,000. If the industry is able to maintain these gains, it would contribute significantly to the scope of the upturn.

Government largesse together with a gain in employment combined to give personal income a vigorous upward push in March. Income payments rose to $409.6 billion, a $3.4 billion gain from the month before. A little more than half of the advance was of a temporary nature, attributable to the Government's speedup in dividend payments to holders of veterans' life insurance policies. Of greater significance was the $1.2 billion upswing in wage and salary payments, the first gain for this component since May, 1960.

The action of the recognized gauges of future business activity

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter I	1960 Quarter IV	1960 Quarter III	1960 Quarter I
GROSS NATIONAL PRODUCT	499.5	503.5	503.5	501.3
Personal Consumption	329.0	330.8	328.3	323.3
Private Domestic Invest.	61.0	66.0	70.8	79.3
Net Exports	5.0	4.6	3.7	1.2
Government Purchases	104.5	102.1	100.7	97.5
Federal	54.5	53.3	52.7	51.8
State & Local	50.0	48.8	48.0	45.7
PERSONAL INCOME	407.5	408.5	408.0	396.2
Tax & Nontax Payments	50.4	50.4	50.5	49.2
Disposable Income	357.2	358.1	357.5	347.0
Consumption Expenditures	329.0	330.8	328.3	323.3
Personal Saving—d	28.1	27.2	29.2	23.7
CORPORATE PRE-TAX PROFITS			41.5	48.8
Corporate Taxes			20.3	23.8
Corporate Net Profit			21.3	25.0
Dividend Payments	14.0	14.1	14.0	13.9
Retained Earnings			7.3	11.0
PLANT & EQUIPMENT OUTLAYS	34.4	35.5	35.9	35.2

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Apr. 15	307.7	305.7	315.3
MWS Index—Per capita*	1935-'9-100	Apr. 15	220.0	218.6	229.0
Steel Production Index*	1957-'9-100	Apr. 15	93.8	91.0	119.4
Auto and Truck Production	Thousands	Apr. 22	160	147	182
Paperboard Production	Thousand Tons	Apr. 15	315	306	325
Paperboard New Orders	Thousand Tons	Apr. 15	296	326	300
Electric Power Output*	1947-'49-100	Apr. 15	291	285	271
Freight Carloadings	Thousand Cars	Apr. 15	522	506	623
Engineerings Constr. Awards	$ Millions	Apr. 20	458	364	758
Department Store Sales	1947-'9-100	Apr. 15	130	128	156
Demand Deposits—c	$ Billions	Apr. 12	60.5	59.4	60.1
Business Failure—s	Number	Apr. 13	383	343	308

PRESENT POSITION AND OUTLOOK

also provide grounds for optimism. A majority of the indicators that normally lead business, are moving up. The barometric new orders for durable goods continued to rise in March and were running ahead of sales, with a resultant gain in backlogs to provide an underpinning for increased business activity. The overall inventory situation is also beginning to look better as businessmen find that increasing sales have obviated the need for further reduction of inventories and restocking is beginning in some cases.

The healthy near-term outlook for the private sector, coupled with a further advance in government outlays, should make for a rising business trend in the months ahead. Using necessarily tentative estimates of the probable scope of expansion for each sector, we find that the recovery should be no more than a moderate one. However, we should bear in mind that intricate relationships exist among the various sectors of the economy. A change of trend for a vital area can create strong multiplier effects and add a new dimension to the existing cycle. That is why estimates of the extent of any business movement are general guides subject to periodic reexamination.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Apr. 14	1961 Apr. 21
Composite Average	529.6	410.9	529.6	528.5
4 Agricultural Implements	497.2	346.4	470.2	497.2H
3 Air Cond. ('53 Cl.—100)	165.8	105.8	158.3	158.3
10 Aircraft & Missiles	1286.3	861.9	1243.4	1286.3
7 Airlines ('27 Cl.—100)	1044.6	736.7	1071.1	1009.0
4 Aluminum ('53 Cl.—100)	521.3	354.5	449.6	449.6
5 Amusements	420.8	209.3	417.7	420.8H
5 Automobile Accessories	531.1	401.0	491.7	487.7
5 Automobiles	157.0	90.8	107.1	107.1
3 Baking ('26 Cl.—100)	44.6	34.9	43.0	41.4
4 Business Machines	1773.4	1159.1	1929.9	1890.8
6 Chemicals	820.1	657.3	827.5	812.6
3 Coal Mining	36.0	27.2	35.3	35.3
4 Communications	257.6	199.9	253.2	242.3
9 Construction	223.3	143.3	214.9	214.9
5 Container	1064.7	824.6	1048.3	1048.3
5 Copper Mining	358.0	275.4	352.5	358.0H
2 Dairy Products	232.4	146.8	230.4	226.3
5 Department Stores	182.7	135.2	182.7	182.7
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	434.2	434.2
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	368.1	368.1
3 Finance Companies	963.2	648.8	963.2	939.2
5 Food Brands	691.4	419.3	680.3	685.8
3 Food Stores	300.7	232.1	295.7	293.1

(Nov. 14, 1936 Cl.—100)	High	Low	Apr. 14	Apr. 21
High Priced Stocks	326.6	262.7	326.6	324.6
Low Priced Stocks	691.2	527.6	688.0	691.2H
5 Gold Mining	1226.0	810.8	1007.0	1018.0
4 Investment Trusts	170.6	136.5	160.9	158.1
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1361.1	1361.1
7 Machinery	627.8	402.9	618.1	627.8H
3 Mail Order	494.2	364.2	486.1	461.8
4 Meat Packing	298.3	223.9	280.2	285.3
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	178.3	183.9
9 Metals, Miscellaneous	416.3	313.3	416.3	409.6
4 Paper	1237.1	867.1	1031.2	1021.4
16 Petroleum	814.3	609.0	807.2	814.3
16 Public Utilities	456.3	341.6	452.3	456.3H
6 Railroad Equipment	109.3	75.8	109.3	106.1
17 Railroads	70.1	49.9	57.1	56.1
3 Soft Drinks	1096.6	690.3	1087.3	1068.5
11 Steel & Iron	464.9	325.4	407.3	397.1
4 Sugar	100.9	63.0	79.5	79.5
2 Sulphur	832.4	563.1	825.3	818.3
11 TV & Electron. ('27—100)	124.6	86.8	124.6	124.6
5 Textiles	258.4	183.3	248.7	252.6
3 Tires & Rubber	255.9	170.6	200.9	197.3
5 Tobacco	280.0	182.5	280.0	277.7
3 Variety Stores	388.3	349.3	388.3	377.7
16 Unclassifd (49 Cl. — 100)	318.9	224.0	218.6	318.9H

H—New High for 1960-1961

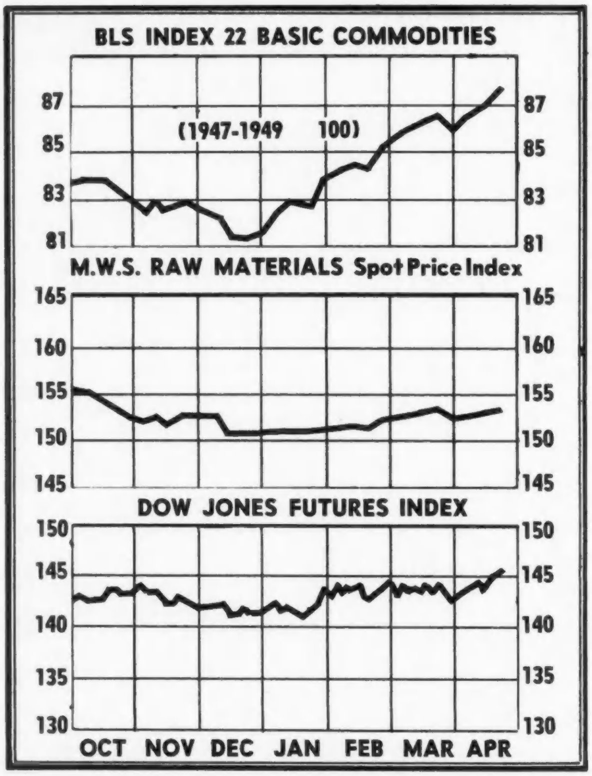
Trend of Commodities

SPOT MARKETS—Sensitive commodity prices resumed their advance in the two weeks ending April 21, spurred by signs of business improvement and a more inflamatory foreign situation. The BLS daily index of 22 leading commodities rose 1.1% during the period to reach a new high since September, 1959. Raw industrial materials were in the forefront of the advance and this component rose 1.8%. In this category, cotton, wool tops, burlap, copper scrap, tin, hides, rubber and tallow, all advanced while only steel scrap and rosin were lower.

Among the rank and file of commodities, changes were negligible for the most part, although farm products moved higher. The commodity markets should remain firm in the months ahead, although no sharp advance is looked for as long as a "shooting" war is avoided.

FUTURES MARKETS—Most futures prices moved higher in the fortnight ending April 21. Corn, oats, soybeans, wool, world sugar, cocoa, hides, rubber and copper futures all did better. Rye, cotton and coffee declined while wheat and lard were mixed. The Dow-Jones Commodity Futured Index advanced 1.49 points, to close at 145.65, a new high since last July.

Wheat futures were mixed in the period under review, with the nearby May option losing 7¼ cents while later futures were little changed. The old crop future was affected by the size of "free" supplies, which appear to be well above year-ago levels. On the other hand, the progress of the new wheat crop has been slow, with weather conditions unsatisfactory. The excellent outlook for exports and the Government's support program for the 1961 crop should make for price firmness.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Apr. 18	119.5	119.5	120.0	60.2
Farm Products	Apr. 18	88.9	88.6	91.1	51.0
Non-Farm Products	Apr. 18	128.1	127.9	128.7	67.0
22 Sensitive Commodities	Apr. 21	87.6	86.6	86.3	53.0
9 Foods	Apr. 21	79.1	78.9	76.9	46.5
13 Raw Ind'l. Materials	Apr. 21	93.9	92.2	93.3	58.3
5 Metals	Apr. 21	94.1	93.3	93.7	54.6
4 Textiles	Apr. 21	82.7	81.6	80.8	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

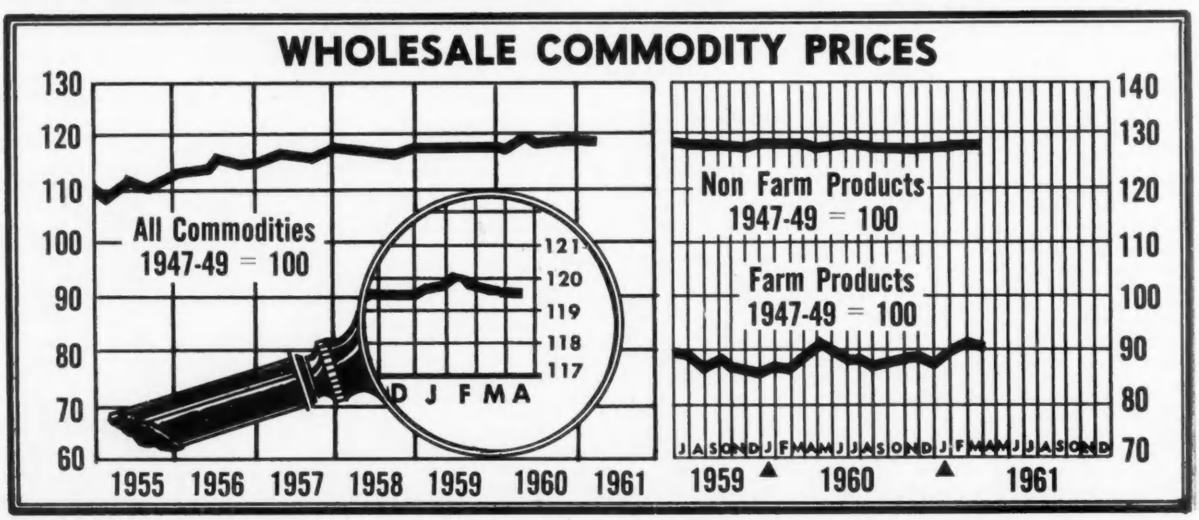
	1961	1960	1959	1953	1951	1941
High of Year	153.8	160.0	161.4	162.2	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	145.7	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1



Evaluating 1961-62 Outlook For Auto Accessories

(Continued from page 209)

a decade in the fiscal year ended October 31, 1960 despite a level of sales almost equal to that of the prior fiscal year. Heavy development and start-up expenses also took their toll on net income —which was down to 46%. In the company's initial quarter ending January 31 of the current fiscal year, sales were off almost 8% and profit margins contracted further. Per share earnings of $0.09 compared with $0.12 in the corresponding period a year earlier. Dividend disbursements, which had been at the rate of $0.15 per share quarterly, were trimmed to $0.10 effective with the January payment and even this reduced rate cannot be considered secure. Operations have fluctuated widely in the past, reflecting business activity and changing military demand. These factors will continue to have an important bearing on future results. Continental has an interest in the boating business through its wholly-owned subsidiary Gray Marine Motor Co., the nation's leading manufacturer of inboard marine engines. A new compact marine engine line has been developed which can be adapted for use with special outboard drives, providing all the advantages of outboard propulsion coupled with those of inboard power.

● Despite all-time record sales in 1960, profit margins of **Budd Co.** were severely restricted, reflecting major changes in production schedules, high material and fabricating costs early in the year following the steel strike, and substantially increased depreciation charges resulting from large capital expenditures during the past two years. Net income was less than half that of the previous year, with per share results of $0.96 down from $2.38 in 1959. Sharply reduced auto production in the first quarter of this year caused shipments to fall materially and a loss was incurred, continuing the deficit pattern evidenced in the two preceding quarters. Although profitable operations may be achieved in the current period, continuance of the quarterly $0.15 per share dividend, recently cut from $0.25, is questionable.

Budd has completed several major capital projects designed to improve and expand plant capacity, including an enlarged plant at Gary, Indiana to handle increased business from American Motors and an important modernization of foundry facilities in Detroit—now considered to be the most modern and highly automated foundry in the world. The company's program of diversification and consolidation, which penalized earnings last year, is continuing. Further expansion of the electronics business is contemplated and expenditures for new product development could be large. Additional relocation and consolidation of facilities for the production of laminated plastics and mica is expected. Although auto parts still account for some 80% of total sales, diversification efforts could eventually prove rewarding. In the meantime, the company has strengthened its position in the auto parts field and with production efficiency increasing, profit margins could widen markedly when auto production gets back to previous high levels.

● Introduction of a new heavy-duty truck transmission and greater penetration of the compact car market helped **Dana Corp.** secure an increased share of the available business offered by original equipment passenger car and truck customers during the fiscal year ended August 31, 1960. Sales increased 5% over the previous year to a new record. However, net income declined 10% from the peak attained in fiscal 1959, reflecting effects of the steel strike on results in the first fiscal quarter together with increased material, labor and other operating expenses. With auto and truck production sharply curtailed in the early months of 1961, Dana's results in the first half ended February 28 of the current fiscal year fell far below those of the similar year earlier period. A sales decline of 18% was accompanied by an earnings reduction of 55% and per share results of $0.76 compared very poorly with the $1.70 reported in the first half of fiscal 1960. Dividends, presently at a quarterly rate of $0.50 per share, have not been covered by earnings in either of the past two quarters. Although operations can be expected to show improvement over coming months and financial position is strong, the dividend is vulnerable.

The Strongly Situated Companies Having Good Growth Potential

● Although **Borg-Warner**'s extensive interests in other fields are now of considerably greater significance than its auto parts business, the company was unable to escape the adverse trend of the auto components industry. In fact, with sales in 1960 off about 10% from 1959 and net income down 31%, Borg-Warner fared somewhat worse than the industry. However, this is readily understandable in view of the company's heavy participation in the appliance and other durable goods fields which were particularly hard hit by the business recession. While first quarter results were down sharply from the year-earlier level, improvement should become evident over the balance of the year. For entire 1961, earnings are likely to be only moderately below the $3.01 per share reported in 1960 and should exceed the $2.34 per share earned in the recession year 1958. The $2.00 annual dividend rate, in effect since 1957, is expected to be maintained, aided by strong finances.

Despite Borg-Warner's recent adverse profits trend, its aggressive management is taking numerous important strides toward development of greater future earning power for this large enterprise. At a time when many companies are deferring major expansion or improvement of facilities, Borg-Warner plans to invest $40 million in new plant and equipment this year, by far the largest capital program in its history. Eight major plant construction projects are under way, designed to permit more efficient operations, broaden product lines and improve quality and service. Sizable expansion of foreign business is continuing and sales and earnings of overseas subsidiaries (which are not included in consolidated operations) showed substantial gains last year. Well known for its past engineering achievements such as the auto-

matic transmission for cars and trucks, the company continues to spend large amounts for research and development. The new Norge coin-operated dry-cleaning machine and a new type of commercial refrigerator-freezer that could be the forerunner of a noiseless and motorless home refrigerator are among the newer developments having interesting future potential.

● The decline in the housing industry, continuing high imports of foreign glass and changing glass requirements of the automotive industry resulted in an earnings decline of 18% for **Libbey-Owens-Ford Glass** in 1960 on a sales reduction of 4%. With auto production off sharply in the first quarter of 1961 and a continuing low level of construction activity, earnings were only slightly more than half those of the initial 1960 quarter. Problems of Libbey-Owens were further complicated lately with the announcement by General Motors that Pittsburgh Plate Glass will supply a portion of its glass requirements for the 1962 auto models. Libbey-Owens had been the exclusive supplier of glass to General Motors for 31 years. While it is too early to assess the impact of this move, it seems likely that the company will have to reduce prices in order to compete effectively for future business. Profit margins have been exceptionally good in most years. In view of the company's well established position and very large holdings of cash and securities which may eventually be put to more effective use, the longer term outlook remains favorable.

● Unlike the vast majority of auto parts concerns and industry in general, **Champion Spark Plug** enjoyed the pleasant and rather unique experience of reporting record-high earnings despite a slight drop in sales during 1960. The reduction in dollar volume, the first in many years, was attributable almost entirely to smaller government demand for military aircraft spark plugs which carry relatively narrow profit margins. The recently announced acquisition by Ford of a spark plug plant and certain other assets of Electric Autolite suggests the possibility of some further decline in Champion's sales this year, inasmuch as Ford had previously accounted for 6% to 8% of the company's business. Although the probable termination of the 50-year relationship with Ford will restrict sales, the effect on earnings will be modest in view of nominal profit margins on original equipment spark plugs—which constituted the bulk of Ford's requirements.

Despite the possibility of a rather static trend in operations over the near term; the company's strongly entrenched position, its large representation in the growing replacement market, together with substantial diversification of markets (including farm machinery, in-board and outboard marine engines, construction and industrial equipment, home power equipment, aircraft, etc.), should enable it to maintain the growth pattern of recent years. Champion has operated profitably in each year since 1911. Dividends, paid in every year since 1919, are currently at the annual rate of $1.80 per share and in view of a strong cash position, could well be liberalized upon evidence of a resumption in the upward earnings trend. Important foreign operations in Canada, England, France, Australia, Brazil and elsewhere are expanding and provide added growth potential.

Conclusion

Despite diversification efforts, foreign expansion and plant improvement programs, auto parts manufacturers generally will continue to experience wide cyclical swings in earnings as business activity fluctuates. The current year will likely be a very difficult one for most of the companies. However, well managed parts companies with sound diversification in growth fields should show superior results in time. END

The Auto Industry In Transition

(Continued from page 205)

one of the brightest in the industry. Although new car sales will not equal those of 1960, the success of the Falcon and Comet will continue to increase their portion of Ford sales. Standard size Fords including the Thunderbird will show moderate growth as the year progresses. Earnings in the area of $6.00 per share appear reasonable and an increase in the dividend or a stock split are entirely within the realm of possibility.

American Motors once the darling of the group is currently facing its stiffest challenge—tougher competition from the "Big Three".

● Rambler sales have been rising more slowly due to introduction of a wider variety of compact models by the large auto makers. The Rambler is grimly holding on to second place in the compact field but under increasing pressure from fast climbing Corvair. President Romney's prediction of a 10% market share for the Rambler is becoming increasingly difficult to forsee; American Motors posted a 7.1% share of market in 1960.

● Sales in fiscal 1960 ended September 30th advanced 22% from 1959, to hit a new sales peak of $1.0 billion. In the last three months of 1960 sales rose by 6% over the previous year but higher operating costs resulted in a net earnings decline of 17%. It is doubtful if 1960 sales can be duplicated this year and since profit margins are expected to be lower on reduced volume, per share earnings are likely to fall well below $2.00. Even though AMO is blessed with the lowest break-even point in the industry, excess capacity and higher labor costs will dampen the profit outlook.

● The company no longer has the benefit of a tax-loss carry-forward. Patriotic efforts to spur Rambler sales by offering rebates and savings bonds to dealers and customers have ceased with the upturn projected in spring sales. The 30¢ quarterly dividend rate, increased from 25¢ with the December 1960 payment should be maintained unless there is an unforseen severe reversal in earnings.

Studebaker-Packard has borne the brunt of intensified competition in the compact with Lark and Hawk sales falling 31% to about 106,000 units in 1960. Higher promotional costs, higher wage rates, severe price competition and lower sales volume contributed to a precipitous decline in net income from a year ago. Heavy conversions of preferred stock

since the beginning of the year have increased the number of common shares outstanding by almost 70%. This dilution of common share earnings has naturally lowered per share figures considerably, almost to the point of negligability.

● Lark sales, once the pride of small car manufacturers, now lag behind the rest of the pack. And Studebaker has nothing in the offing to fill the medium priced compact field. In short it is a one product company and upon this product its fortunes rely. Mr. Egbert, the new president, will have a difficult time getting the company back on its feet.

● The picture, however, is not entirely dismal. As exclusive distributor for Mercedes Benz, DKW & Auto Union in the Western Hemisphere, Studebaker will prosper with a regeneration of interest in the Mercedes line especially in view of the past International Exposition. A concerted effort to diversify is materializing and five other companies have been acquired within the last year.

● Some difficulty is being encountered in these acquisitions due to Studebaker's dearth of cash and the low price of the stock. Tax-loss carry-overs in the amount of $94 million are still in effect with $34 million due to expire at the end of this year.

● 1961 does not appear to auger well for S.P. Heroic efforts to stimulate Lark sales will be costly and as more and more competition appears on the horizon, profit margins will deteriorate.

Outlook For Trucks

Closely following fluctuations in the business cycle, the trucking industry is beginning to regain a rate of production that was achieved in the middle of last year which was in the area of 110,000 units per month. Several other factors have started to operate in favor of increased production which point to another fine year. Heavy construction activity has been spurred by government aid to housing. Highway and roadbuilding funds have been increased and projected five year figures assure even larger amounts in the future. Federal and state roadbuilding programs are progressing at an accelerated rate due to the emphasis on traffic problems and more efficient travel for an expanding population. Orders from the military have also picked up, thus breaking a two year lull.

Overall production should exceed last year's total of 1.1 million units if all the aforementioned factors continue to operate favorably.

Conclusion

Transition, alteration and even revolution has marked the auto industry in the past few years. This trend will continue as the changing taste of consumer preference favors one vogue and then another. Companies who were once the flourishing leaders are now suffering the fate of lower production and low profits. American Motors is holding up better than weakening Studebaker Packard. Management philosophy has changed Ford into the competitive giant of the past; and Chrysler, suffering from management difficulties is hoping to retain its share of the market. Traditional General Motors dominance will continue to enhance its attractiveness. END

A First-Hand Report On . . . Latest Shifts In 1961 Defense Expenditures

(Continued from page 197)

items associated with the aircraft program alone, the Army will have $35 million to spend, with another $165 million for other electronic and communications requirements. This $200 million compares with $122 million in fiscal 1960.

● The rifle still tops the Army's priority list, even in the age of missiles and electronics. **Olin Mathieson,** off to a bad start in setting up automated lines for the new M-14 rifle, is now believed to have redeemed itself in the Army's eyes and is probably in line for additional contracts. **Sperry Rand's** Sergeant missile and **Convair's** Redeye will come in for their first big production runs.

Looking Ahead

The move toward centralization of the military establishment has been going on to some degree since the end of WW II. But Mr. McNamara and his cohorts apparently have set their sights on a much faster pace. Starting with military space systems a scant few weeks after taking office,

their efforts in this direction eventually will be felt in every area of military activity short of actual merger of the Armed Services.

President Kennedy has set the pattern with his firm personal grip on Government operations all down the line. Secretary McNamara, who is the personification of the type that used to be known as the "efficiency expert", will brook no nonsense about traditional Service roles and missions if he is convinced there is a better way to do the job. He is ably aided and abetted in this attitude by his two right-hand men—Roswell Gilpatric, his deputy and alter ego, who has been an unabashed advocate of more unification since his Air Force days, and Charles Hitch, DOD Comptroller and former economist, who has startled long-time residents of the Pentagon with the novel idea that weapons systems and all other military programs should justify their existence on the basis of their complete costs, in competition with alternative programs.

If their efforts are successful, there will ultimately be some drastic changes in the way things are done at the Pentagon. The traditional ratio between the funding allocations of each of the three Services will go by the boards. Projects will be cut off unceremoniously much earlier in the research-development cycle, before they get too expensive, if they don't measure up in terms of "cost effectiveness". Procurement will undoubtedly be more efficient. Defense industry will find itself dealing with fewer decision-makers, a situation which could mean headaches as well as benefits, as for instance when projects are in danger.

Ironically, if this tendency toward greater centralization is carried far enough, it could lend substance to President Eisenhower's ambiguous warning about a powerful military-industry clique. A clique presupposes a singleness of interest and purpose that is not now evident, in view of the competition among the Services and their contractors and the number of cooks who have a finger in the stew. ***Let a monolithic structure be erected, however, and the picture could change.***

The tightening of civilian control over the military, of course, could be considered some offset to this prospect. Hand in hand with this trend is the increased emphasis on better command control, particularly of the strategic deterrent forces, to keep itchy fingers off nuclear triggers. **This means more electronics and communications systems, with the likely beneficiaries to be such firms as International Telephone & Telegraph, A. T. & T., Radio Corp., GE, Sperry, Philco,** and **Ling-Temco.** END

As The Steel Companies Dig Their Way Out

(Continued from page 201)

of 1961. If attained, this would result in production of roughly 43 million tons through the first half. Looking beyond this period, the crystal ball becomes rather murky. Important factors which have to be weighed include strength of the overall economy, length of a possible auto strike, user inventory policies and the trend of capital spending. While none of these are clearly predictable, some attempt must be made to assay the major trends.

Fair Hope for Inventory Turn-around

If it seems reasonable to conclude that the economy will continue tracing a cyclical recovery pattern in the second half of the year, it also seems realistic to believe that some inventory accumulation will be seen. Undoubtedly many businessmen have been successful in limiting their supply of steel to, say, one month's requirements. This means that as consumption of steel has continued to decline, the amount held in inventory has been falling in a similar ratio. Turn the picture around and it is easy to see why accumulation can take place even if the user still only wants to keep a 30-day supply. A 30-day supply

of steel in September, 1961 may turn out to be a much larger requirement than a month's supply back in January. As more users try to bring their stocks up to a certain relationship to their volume, delivery time at the mills will begin to lengthen. This may well prove the signal that inventories generally are too low in relation to sales and larger requirements will again be held at the user level.

Some investors will protest that the steel consumer has learned his lesson and hence will not follow policies which will lead to fairly wide swings in the accumulation and subsequent reduction of inventories. Perhaps so, but in the absence of evidence to support this viewpoint, it must be aasumed that the same old policies will be followed. Thus, with generally higher consumption and assuming some inventory building, the second half appears to have some supporting influences, particularly since capital spending is likely to be on the rise again. Allowing for some temporary letdown in demand from Detroit, either because of a strike or production adjustments, it appears quite likely that steel production could amount to around 50 to 52 million tons in the second half of the year. If so, output for all of 1961 would approximate 94 million tons, compared with 99 million tons last year.

No Surcease in Costs

Cost pressures will continue to rise in 1961, with higher wages the major factor. A pay increase of about 9½ cents per hour was granted last December 1 and a similar hike will take place on October 1, 1961. The big question is whether steel prices will rise to provide some offset to the heavier expense of doing business. While the political pressure will be strongly against such a move, the smaller, less efficient companies in the steel industry are likely to eventually force some selective price increases. In all probability, the higher quotations will not fully offset the added expense, and margins will continue under pressure.

With profit margins apparently not getting wider and somewhat lower output indicated as a strong possibility for 1961, the stage would appear to be set for a drop in profits on a year-to-year basis. But this may not necessarily be the case. Ever since demand began drying up last year, the steel industry has been on a cost cutting drive. More efficient methods of making steel have been introduced into many plants, while excesses of all types have been pruned from the companies' overhead. Given any reasonable improvement in volume superimposed upon a lean cost structure, steel companies could show surprisingly good earnings in the second half of the year. In such event, the overall results for 1961 may not differ greatly from the profits showing of 1960. Even so, general dividend increases do not appear in the cards for this industry until a higher level of profitability is achieved. Such a level of earnings could be reached in 1962, but this is sheer speculation at this point.

Issues Look Fairly Valued, Not Exciting

The question facing the investor at this time is the proper policy to be adopted toward the group. Clearly the stocks are already discounting a good deal of the possible earnings improvement in the second half of 1961. By traditional yardsticks the issues are not cheap, particularly in light of the serious problems with which managements must now wrestle. Even so, as pointed out, the leaders in the group are substantial companies with demonstrated earning power.

● **U. S. Steel** is likely to be around long after many of the current speculative favorites in the market have faded out of memory. Hence, sound stocks in the group can be held, both for their cyclical recovery possibilities and for their longer-range appeal. New investment in the steels is probably best directed toward those companies which are heavily represented in the light steels and which have good low-cost facilities. Let us review the issues in this category deserving current consideration.

● **Armco Steel** is an integrated producer with eight plants strategically located throughout the country. Capacity is now about 6.8 million tons of which some 20% is used to turn out stainless and specialty steels. With about 40% of sales in flat-rolled sheets and plates, Armco has a good position in the light steel market. Merger with National Supply in 1958 gave the company an important position in the oil country goods market, which now shows signs of turning around after an extended soft period. Armco's earnings, which were moderately lower in 1960, should hold up well this year.

● **Granite City Steel,** although a small factor in the industry, has been quite successful in cultivating the demand for steel around the St. Louis area. Heavy capital spending in the postwar period has paid off in improved

efficiency and margins are now among the widest in the industry. New capacity is coming on stream in 1962 which will add to the potential earning power of this well-run company.

● **National Steel** is an important factor in the automobile and container markets. A sizeable expansion and modernization program is now afoot which will enable the company to utilize its Great Lakes Division efficiently. Ingots will be shipped to the new finishing mill outside of Chicago when demand from the auto industry slackens. The company's longer-range potential is being significantly improved. **END**

Global Aspects Of Antitrust Laws On Trade And Business Activities

(Continued from page 195)

Webb-Pomerene Export Trade Act. In order that small American companies with neither the requisite skills nor the funds to engage in foreign marketing alone might benefit from the economies of joint selling, this act gives limited exemptions from the antitrust laws to trade associations engaged solely in export trade.

In dealing with foreign buyers, the exporter is confronted with almost the same problems that exist domestically with sales distribution arrangements. These problems are brought on by common types of agreements and can be described in terms of the following six situations.

Exclusive Foreign Dealerships Appear Valid

First, the American exporter may promise to sell only through a selected distributor in a designated territory. The legality of promising not to sell into a given foreign market outside of a selected dealer is generally unquestioned, since the only business opportunity restricted is that of other foreign dealers to handle the same brands, and no restraint on the foreign commercial opportunity of American business takes place. When a foreign manufacturing competitor is simultaneously an exclusive distributor, however, the antitrust risks are greatly increased, since the self interest of the foreign competitor-distributor makes it almost inevitable that the arrangement will diminish the volume of the American's exports. **Aside from their legality, the business justification for exclusive distributorships is that to induce a reliable foreign dealer to take on any particular product, the American exporter must meet the terms of European and Japanese manufacturers, who are not burdened by any such prohibitions.**

Second, if his bargaining power is strong enough, the foreign distributor may extract a promise from the exporter not to sell directly to customers in the assigned territory. The distributor in these instances usually has good outlets, and has enough influence with the local officials to obtain the import licenses and other permits necessary for effective local marketing. The promise involves at least a partial limitation on the American's freedom to export. **But the right of customer selection, the business advantages of conferring exclusive rights on the foreign distributor, and the absence of significant harm to American commercial opportunity would seem to sustain such a commitment legally.**

Third, the foreign dealers may agree not to sell in the territories of other foreign dealers. This has no impact on U.S. exports or imports and, therefore, involves no restraint on our trade with foreign nations.

Foreign Territory Should Not Be Closed To Domestic Dealers

The fourth situation likely to arise is the exporter's promise not to permit his domestic dealers to resell into any foreign dealer's area. This means that the American principal must secure a promise from his domestic dealers not to sell into the territory assigned to specified foreign dealers. Such a promise not to export, however, conflicts with the position of the Justice Department that such territorial restrictions are automatically invalid. **Thus, to avoid trouble with the Justice Department on the one hand, and to retain his exclusive arrangement with the foreign dealer on the other, the American exporter may have to pay the foreign dealer his commission on all sales into his territory whether or not such sales are**

made through him.

Reasonable Restraints Upon Foreign Buyers Acceptable

A fifth common device in selling abroad is that the American may want to prevent the foreign dealer from handling the goods of competing American manufacturers, and both may so agree. Such a foreclosure of markets might theoretically deny American competitors the opportunity to distribute their products, and thus raise antitrust risks. **But only when such foreclosures freeze out American rivals from a share of foreign commerce so large that they cannot compete in a given foreign market at all, would such action be deemed illegal.**

Resale controls which tell the foreign buyer what he can and cannot do with what he buys is ***the sixth facet*** of the exporter-foreign dealer relationship. Territorial and price resale controls over the dealer may be quite desirable, especially if the American's trade reputation is at stake. Although such controls may affect the volume of commerce within and among foreign nations, they are of no legal significance under the Sherman Act which does not concern restraints beyond the interstate or foreign commerce of the United States. The act does reach those resale controls, however, which might affect imports into the United States. **The chances of a product initially exported from the United States being re-exported to the United States in its original form are naturally remote. However when controls prevent a foreign manufacturer from processing what he buys from the United States, incorporating it into some finished product and then reselling it here on his own terms, American import commerce is being restrained and antitrust danger ensues.**

But all of the situations above would be subject to interpretation in specific cases. Thus, it is possible that the purely *local* business arrangements which an American manufacturer with export potential might find desirable to have with his *foreign* dealers in the *local* foreign market may affect American exports or imports more broadly and thus subject the manufacturer to an American antitrust complaint. **This facet of foreign commerce antitrust enforcement obviously hamstrings firms with extensive global operations and in many instances dampens their initiative.**

Licensing Arrangements Must Be Carefully Drawn

The transfer of patents, know-how and trademarks, conveniently referred to as "licensing", constitutes a large part of foreign business operations. Again, whenever the competitive freedom of the parties thereto is restricted, the antitrust laws may come into play. Much depends on the market that is affected by the licensing arrangement, inasmuch as the law is only concerned with U. S. interstate and foreign commerce. **Also, what is being licensed is an important consideration, since a territorial limitation in a patent license may be valid, while the same restriction on the use of unpatented know-how may be risky.**

Another factor is the type of restriction contained in the license arrangement. A restraint which curtails competition for an indefinite duration among major firms is more likely to draw a complaint than a restraint of a relatively short duration imposed on a firm that is not an important factor in U. S. commerce.

A good rule for the businessman to follow is that if restrictions must be made a part of an arrangement in order to license abroad, they should be reasonably limited in time and scope, and subordinate to valid trademark, patent or know-how transfers. Such arrangements should be supervised carefully and frequently or, with the passage of time and the usual number of misguided letterwriters, the agreements may easily take on the appearance of illegal restraints.

A recasting of foreign arrangements rather than their elimination is likely to be the antitrust law's impact on the more sophisticated licensors. They may also turn to direct investment in lieu of licensing or they may in effect license for manufacture only, withholding the license to sell.

Considerable Antitrust Risk in Jointly Controlled Foreign Subsidiaries

As for the third principal method of doing business abroad —acquiring control in or establishing a foreign subsidiary—it is self-evident that agreements restricting competition between parent and wholly-owned subsidiary are unnecessary. But concerted action between parent and subsidiary might still be unlawful if it involves an unreasonable restraint of outsiders' trade; **foreign subsidiaries should not join in any foreign cartels or arrangements with other foreign competitors aimed at restricting exports from or imports to the United States.**

The lower the percentage of ownership in a foreign company, the greater the need for restrictive agreements ensues and, thus, less reliance can be placed upon the parent-subsidiary defense. If an American firm finds it more profitable to share the risk or take advantage of complementary sources of know-how and capital, it may join with other domestic competitors in the ownership of a foreign firm. Or, local law and protection against nationalization may require local participation, and thus the American will share ownership with a foreign competitor. These are all valid business reasons, but even so subsidiaries jointly owned with foreign or domestic competitors do create serious antitrust risks.

► **A foreign manufacturing venture owned jointly by two or more firms which dominate an American industry is quite vulnerable to an antitrust investigation because of the venture's inherent restraint on the independent exporting decisions of the partners. If a joint enterprise were put together to divide U. S. export markets among competitors, American or foreign, it is very likely to be held illegal.**

Thus, the same basic problem appears in a different guise. Although there are practical business reasons for joining with domestic or foreign rivals in establishing a joint foreign enterprise, any subsequent cooperative action between the two parents and their subsidiary on such subjects as pricing, division of markets between parent and subsidiary, or use of the subsidiary as joint distributor for products of the parents may well sustain an antitrust complaint.

Justice Department Must Not Run Off Half-Cocked

In conclusion then, any American businessman who seeks to embark on a program of doing business abroad must carefully ask whether by so doing he will be incurring a significant danger under the American antitrust laws. **Yet, the economic and political conditions under which foreign trade must be conducted are quite different from those prevailing "among the several states". Sales and distribution of goods must be carried on in countries which permit and even encourage restrictions considered illegal in the United States.** Risks are now imposed even when there is not likely to be any internal effects in the United States. Before the United States applies its law in such a way as to disturb foreign rights, and before we intervene in the internal affairs of other nations, our broad policy objective and its consequences must be carefully appraised. Certainly, any proposed antitrust proceeding by the Justice Department involving foreign conduct, rights, or parties, should first be offered for the comment of the Departments of State, Defense and Commerce.

The present article, it is realized, merely describes rather than solves problems. But legislation which was conceived solely to meet a domestic situation cannot be applied blindly to a world situation the conditions of which are largely beyond our control but in which it is still highly desirable for us to participate. Before antitrust enforcement runs wild a thorough re-examination of our foreign trade objectives is necessary. END

The Newly Proposed "Patches" On Our Tax Structure

(Continued from page 182)

rates of our steeply progressive taxes from the 91% top rate now in effect on taxable incomes over $100,000. It had been expected that the maximum rate might be reduced to 60% in the interests of greater equity, particularly since the proportion of the total tax yield in the brackets above 60% is less than 1%. However, this reform may come next year when a more comprehensive tax law over-hauling is promised.

Also omitted is any mention of changes in mineral and oil depletion allowances. Since such a recommendation might well antagonize Southern Democrats, especially those from Texas, where a sensational election is to be decided this year, it is surmised that the Administration is ducking this issue, at least for the present.

When the Proposals Hit Congress

It is well to keep in mind that the proposals which have been made are still only proposals. Congressional hearings are scheduled to start early in May with the Secretary of the Treasury as the first witness before the House Ways and Means Committee. **By the time the Congress hears all the witnesses and hammers out a new revenue act having the approval of the House and Senate committees and of a majority of the members of both houses, the final measure may bear little resemblance to the proposals now set forth.**

But, in any consideration of tax programs it must be conceded that the revenue requirements of our Federal government are great and must be met. For this reason it does not suffice to be destructively critical.

The Government's Take

In the current year, Federal taxes, social security contributions and other trust fund receipts will yield about $100 million. The collection of so huge a sum profoundly affects the economy and the rate of growth. Because the bulk of any acceleration in growth must come from the private sector it is necessary to reform the Federal tax structure to minimize its inhibiting effect on production. **Any reconsideration of our tax system from the standpoint of growth will have to include a review of the fact that it places a relatively heavy burden on the return from productive activity and relatively little burden on consumption. Its tendency to penalize rather than reward extra effort, talent, enterprise and investment must be reversed insofar as possible. The need is to nurture rather than to overburden the goose that lays the golden egg of increased income and production.**

Why Patch When An Overhaul Is Necessary?

The present income tax is so full of inequities and growth-retarding provisions that it is questionable whether we can afford to wait much longer for a thorough-going overhaul of the entire law. The present statute, with its progressive rates on individual incomes rising to a top bracket of 91%, is admittedly unsound as are many of the existing provisions relating to corporate taxes. The present income tax structure has "just growed" like Topsy in Uncle Tom's Cabin. It reflects not the best revenue producing mechanism but "social objectives" and the pulling and hauling of the political pressures of the moment. By centering the attention of the public on the changes in rates from year to year, sight has been lost of the end result. **Piling layer on layer of politically motivated amendments on a rickety foundation has resulted in a grotesque Federal income tax structure which is so unfair in its impact on tax-paying groups that it encourages such groups to spend increasingly large amounts of their time and effort in seeking ways to minimize their tax liabilities. Thorough-going income tax revision and simplification is long overdue.** END

First Quarter Earnings Reports Tell Only Part Of 1961 Story

(Continued from page 186)

the slowdown in the domestic economy. But the industry is also suffering from extremely high capacity in relation to current demand, and excess stockpiles of aluminum abroad. Full recovery is probably still a year or two away.

Scattered Reports

The balance of the early reports show the typical admixture that accompanies a recession. In the drug industry **Pfizer** was able to score a small gain on the strength of its new products. Earnings were 45¢ per share against 43¢ a year ago. **Schering,** on the other hand, is feeling the full impact of a decline in demand for its steroid lines. Earnings therefore dropped to 48¢ a share from 65¢.

Parke-Davis, hit with recurring problems in connection with its controversial product, Chloryomycetin, also suffered a decline. Profits equalled 39¢ per share, down from 64¢ a year ago.

Even some of the high-fliers had troubles. **Polaroid,** the wonder stock in the leisure group barely covered its 5¢ quarterly dividend after earning 58¢ in the first quarter of 1960. Troubles with its new camera that led to expensive overhauls are blamed by the company, but sales also dropped to $14 million from $20.1 million a year ago.

Texas Instruments finally broke its long earnings upsweep last year, and was not able to renew an uptrend in the first quarter of 1961. Lower prices for semiconductors and greater competition from the many newcomers into the field cut earnings to 95¢ a share from 99¢ last year, despite an advance in sales.

Even **Scott Paper,** the perennial star of the paper industry because of its close ties to basic consumer items, had to be content with a small decline in the first quarter. Earnings eased to 81¢ a share from 83¢ last year, but significantly, profit margins on reduced sales showed an improvement. The company continues as one of the most efficient operators in the country.

Summary

As more first quarter reports appear, we will have a better chance to appraise the accuracy of our initial impressions. Neverless, it is doubtful that much change in the pattern will emerge. A few industries, especially the oils, may show improvement across-the-board, but in general, better earnings will be spotty exceptions.

However, the problem this year is not first quarter earnings, which were clearly foreseeable by any careful observer. Rather, it is the character of the pick-up as the economy begins to turn the corner. If it is spirited, the normal sharp advance in profit margins in the early stages of recovery could make 1961 a good earnings year, regardless of the first quarter. If the rebound is sluggish, however, 1960 could be one of the poorest profit years in a decade. END

The Extent to Which The Quality of Leadership In The Stock Market Has Deteriorated

(Continued from page 189)

the six times earnings which was once considered par for major steel companies.

● The fact that good stocks are firmly held by seasoned individual and institutional investors should not be minimized in importance. For perspective, if we remove IBM from the electronics industry, the total capitalization of *all* electronics stocks traded on the NYSE is less than the capitalization of major companies such as Du Pont, General Motors and AT&T. **Electronics issues are flying high because they are much in demand and short in supply, but their impact on total market values is relatively small, on both the upside and the downside. A one point change in the price of General Motors creates or destroys about $300 million in market values. But if you combine all of the off-beat specialties on the leader's list in the accompanying table, it would require a ten point move in all of the following and still not approximate the same change in value: *American Hospital Supply, American Photocopy, Beckman Instruments, General Precision, Haveg, Korvette, Litton, Perkin-Elmer, Revlon, Varian, Vendo.***

Moreover, you can throw *Polaroid* into the group and still not change the picture one iota. If you also added *Brunswick, AMF, Raytheon, Texas Instruments, Avnet* and scores of other current favorites, you would still not approach the potency of a one point change in the price of GM.

What this means, of course, is that the rampant speculation is occurring in a minute segment of the stock market. **It is sensational, and headline making, but it is not seriously affecting total market values.**

If the whole group were to collapse, the portfolios of institutions and large investors with well diversified holdings would not be affected significantly.

It is this kind of analysis incidentally that makes it unlikely that mutual fund holders will desert the funds en masse. For the fund portfolios are loaded with the big issues, despite their recent acquisitions of the lower quality leaders.

What Next

An analysis that denies complete collapse is comforting, but it still leaves unanswered the important question of what investors can expect from the market. The pattern of deterioration is obvious from the character of the leadership, but what will the deterioration lead to?

Our previous discussion contains the answer.

—Most of our major industrial groups are in transitional periods at the moment.

—The growth of the chemical industry must wait for demand to catch up with capacity.

—Steel, auto and machinery companies are in a period of low profitability, and will remain there until their modernization programs bear fruit in the form of lower operating costs and higher profit margins.

—The aluminum industry must wait a few years until the normal growth in demand catches up to the enormous capacity that has been created; the same is true of paper.

—But in the meantime earnings will remain relatively stable and the vast majority of companies will continue to pay dividends.

► In addition, the huge cash flow of corporations will provide a useful prop since cash will be available for dividends even in years when earnings are depressed.

Hence, if the high-flying boom comes to a halt, and in the process pares some value from the general list, the results will be more annoying and perhaps frightening than catastrophic.

The market's performance has far outpaced the rise in earnings and dividends in recent years. In fact earnings have risen only 15% as fast as prices. But the market need not collapse to restore balance. We can expect recurring rolling adjustments, and the market may mark time unspectacularly for a few years to give earnings a chance to catch up.

This is the most likely pattern of the future after the current speculative bubble bursts. END

Where Do The Rubbers Stand Today?

(Continued from page 211)

despite the fact that both companies granted equal raises last August. Apparently labor is not counting upon across-the-board increases this year, but is merely seeking equalization of labor costs among the various producers. Significantly, Firestones' labor costs have averaged about 26% of sales, well below the rest of the industry.

Only Slim Hope For Firmer Prices

What about prices this year? This, of course, is the key question. If prices can be raised and price wars avoided, there is a chance for improved profitability. So far, however, the signals are not good. U.S. Rubber tried a price increase a short time ago, but the other companies did not follow. The company has made the increase stick on the books by widening discounts to dealers, but this is pure fiction.

About the only truly attractive prospects facing the companies this year is a reduction in the price of natural rubber from the high levels that prevailed during 1960; and the likelihood that an economic resurgence will raise the demand for plastics and other synthetic products.

Profits Abroad

Over the long term, the prospects still appear bright for the rubber companies, once they adjust their operations to the new pace of the replacement market. In addition, much of their future growth will hinge on chemicals and plastics. both at home and abroad.

The tire market is just beginning to boom in Europe and most of the companies have established strong footholds on the Continent. Along with production facilities for tires has gone the wherewithal to turn out synthetic fibres and other chemical products. Hence, in a less dog-eat-dog atmosphere abroad, profitability may grow rapidly over the next several years. This factor alone may continue to enhance the investment status of the rubber group despite the somewhat disappointing profit outlook here at home.

Stocks Reasonably Valued

The excellent prospects abroad and the constant broadening of domestic markets makes some of the tire companies fairly attractive for the long-term holders. Further, the stocks are not as seriously over-valued as those in many other high quality industries.

Goodrich, for example, is selling to yield approximately 4% on its well-protected dividend of $2.20 per share. While earnings growth has been static as far back as 1950, per share earnings have averaged well above $4.00, and cash flow about $6.00.

The company is the fourth largest tire producer, but of greater importance is the pioneering work it has done in chemicals. The high cost of developing chemical products has led to wide profit margin swings, but it has also given Goodrich an excellent product base for future earnings expansion. Tires now account for only 45% of revenues, with replacement tires accounting for the larger share.

In recent years, a series of misfortunes has struck Goodrich. Vinyl prices have fallen away from their former high level; tire price wars added to the misery and other chemical price weaknesses hurt in 1960. Perhaps Goodrich has not been aggressive enough in exploiting its research and know-how. If so, the enormous expansion program recently budgeted indicates a change in the making. Goodrich is now going after foreign business actively and intends to capitalize fully on its chemical knowledge. In the light of the company's excellent earnings base any appreciable expansion in profits should lead to dividend increases. The stock will require patience, but for seasoned investors there should be long range rewards.

U.S. Rubber Repairing Previous Neglect Of Replacement Market

U.S. Rubber sells more cheaply than the other major companies because of its past erratic record. Real progress has been made, however, in widening markets for the company's products and in bringing about greater operating efficiencies. Management has spent five years remaking the company and the results were already beginning to show when the recession hit. Profit margins climbed from 8.9% in 1957 to 10.7% in 1959, only to fall back under 10% in 1960. Nevertheless, the company is weathering this storm better than it did the last one. Earnings in the first quarter of 1961 fell back 55%, while in the first quarter of 1958 (the previous recession) they declined a broader 65%.

The trouble with U.S. Rubber until recently was simply that it had missed the boat in the replacement market. It concentrated on independent dealers while the other companies were building up their own retail outlets. Now that situation is changing. The company has set its sights on over 200 owned outlets by 1965. Thus over the next few years its position should improve materially. The effect on profit margins could be electric, since production facilities have been swept clean of fat and inefficiency. Though more speculative than Goodrich, the stock at about 11 times earnings is a reasonable long term commitment. The $2.20 dividend is well covered by average earnings of over $4.00 and cash flow of close to $9.00 per share. However, earnings will probably continue to fluctuate widely because of the company's heavy debt structure. Interest and preferred dividend requirements amount to over $10 million, or almost $2.00 per share of common.

Goodyear Favorable Trend Interrupted

Goodyear has maintained a better earnings growth record than the other major companies. Heavy and consistent capital expenditures have managed to keep profit margins from slipping. In addition, the steady rise in capacity has led to rising earnings despite the various tribulations that beset the industry.

Tire sales account for approximately 60% of Goodyear's business and are split evenly between original equipment and replacement business. Despite the urgent efforts of its competitors Goodyear has managed to remain the number one volume company in the industry.

Comprehensive Statistics Comparing the Position of Leading Tire & Rubber Companies *

Figures are in million dollars except otherwise stated.	Firestone Tire & Rubber	General Tire & Rubber	Goodrich (B.F.)	Goodyear Tire & Rubber	U. S. Rubber
CAPITALIZATION:					
Long Term Debt (Stated Value)	$ 76.9	$ 82.5	$ 98.5	$ 227.1	$ 154.6
Preferred Stocks (Stated Value)	—	$ 19.9[1]	—	—	$ 65.1
No. of Common Shares Outstanding (000)	26,976	5,336	9,008	33,884	5,745
Capitalization	$ 133.1	$ 106.9	$ 188.6	$ 282.6	$ 248.5
Total Surplus	$ 516.5	$ 137.7	$ 297.8	$ 548.8	$ 232.3
INCOME ACCOUNT: Fiscal Year Ended	10/31/60	11/30/60	12/31/60	12/31/60	12/31/60
Net Sales	$1,207.2	$ 753.9	$ 764.7	$1,550.9	$ 966.8
Deprec., Depletion, Amort., etc.	$ 45.7	$ 14.6	$ 23.7	$ 49.8	$ 24.2
Total Income Taxes	$ 61.6	$ 20.3	$ 27.4	$ 66.5	$ 32.2
Interest Charges, etc.	$ 3.5	$ 4.8	$ 2.3	$ 8.8	$ 5.4
Balance for Common	$ 65.0	$ 21.7	$ 30.0	$ 71.0	$ 25.5
Operating Margin	10.3%	5.3%	7.1%	9.1%	6.9%
Net Profit Margin	5.3%	3.0%	3.9%	4.5%	3.1%
Percent Earned on Invested Capital	11.3%	14.0%	7.7%	11.7%	9.4%
Earned Per Common Share	$ 2.41	$ 4.07	$ 3.33	$ 2.10	$ 4.44
Cash Earnings Per Share	$ 4.10	$ 7.00	$ 5.97	$ 3.57	$ 9.57
BALANCE SHEET: Year Ended	10/31/60	11/30/60	12/31/60	12/31/60	12/31/60
Cash and Marketable Securities	$ 43.8	$ 11.0	$ 66.9	$ 72.3	$ 57.6
Receivables, Net	$ 226.6	$ 151.8	$ 131.7	$ 234.8	$ 138.2
Inventories, Net	$ 283.6	$ 73.4	$ 160.4	$ 342.0	$ 243.5
Current Assets	$ 554.1	$ 236.3	$ 358.5	$ 649.2	$ 439.4
Current Liabilities	$ 173.4	$ 129.7	$ 77.9	$ 127.7	$ 121.1
Working Capital	$ 380.7	$ 106.6	$ 280.6	$ 521.5	$ 318.3
Current Ratio (C. A. to C. L.)	3.2	1.8	4.6	5.1	3.6
Fixed Assets, Net	$ 273.7	$ 99.7	$ 175.7	$ 342.7	$ 181.1
Total Assets	$ 840.4	$ 386.3	$ 613.0	$1,011.2	$ 645.0
Cash Assets Per Share	$ 1.62	$ 2.07	$ 7.42	$ 2.14	$ 10.02
Inventories as percent of Sales	23.4%	9.7%	21.0%	22.0%	25.1%
Inventories as % of Current Assets	51.2%	31.1%	44.4%	52.7%	55.4%

*—Statistics on other leading companies have not been included because recent balance sheet figures have not been released yet.

[1]—Does not include $904,000 subs. preferred stock.

The company's heavy expenditures in recent years (over $450 million in just the last five years) has not been concentrated solely in the tire and rubber business. Diversification has also been stressed, especially in aircraft parts and missile components. Furthermore, chemicals, especially vinyl films, have become major factors in the company's earnings.

In 1960, Goodyear suffered from the same troubles that affected the rest of the industry. Consequently, earnings declined to $2.10 per share from $2.29 the year before. 1960, therefore, interrupted a rising earnings trend that dated back unbroken to 1954. The present year will probably be another year of decline for Goodyear. First quarter results have not yet been released, but from all indications the company suffered the same fate as others in the field. The 90¢ dividend is in no jeopardy, but per share earnings of less than $2.00 makes it unlikely that any increase will be forthcoming.

Most Broadly Diversified

Most widely diversified among the rubber companies, **General Tire** includes among its far-flung activities a radio and television network, a major missile contracting subsidiary and the nation's largest producer of wrought iron. Tires, virtually lost in this maze of enterprises, account for about 30% of volume and probably a much larger percentage of profits. Nevertheless, General's wide-spread activities have led to a better rate of earnings growth than any other company in the field. Per share net climbed from $1.94 in 1954 to a high of $4.84 in 1959. But in 1960 higher natural rubber prices cut profit margins for the tire business, while earnings gains among its subsidiaries were not enough of an offset. In 1961 rubber prices will be more favorable, but earnings from RKO Radio Picture will be down as previous tax credits have been competely exhausted.

In the first quarter, earnings declined to 94¢ a share from $1.16 last year. Full year results, therefore will probably fall below $4.00 compared with $4.07 in 1960. Dividends, which are currently $1.00 per share, could still be raised if earnings expand in the latter part of the year. Coverage is exceptionally good, with cash earnings running above $6.50 per share.

Extensive Retail Operations Protect Firestone

Firestone has been the cinderella company of the industry, largely because it pioneered in the retail field. It has almost 800 retail outlets scattered throughout the country, specializing in everything from tires to baby carriages—all at a discount. In addition, Firestone has not neglected diversification. Other activities include plastics, metals, chemicals and textiles, as well as an aggressive overseas program that should bear fruit a few years hence.

Firestone's aggressive merchandising and rigid control of costs showed up best in a recession year. Earnings declined in 1960, but only a few cents per share, from $2.45 to $2.41. More important, in the trying first quarter of 1961, per share net was only one penny below the 51¢ earned in the opening period of 1960. A further small decline is in

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prospect for 1961 in view of the poor start in the automobile industry, but recovery should set in by the second half.

Contrasting Results Of Two Smaller Companies

Among the smaller companies, **Armstrong,** which ranks fifth, has the best record. In contrast with the major companies, tires account for about 90% of revenues, but the company enjoys the advantage of being the major supplier to Sears-Roebuck.

Earnings fell slightly in 1960 from the $3.20 earned in 1959, and will probably slip a bit further in 1961, but the $1.40 dividend will be adequately covered.

Lee Rubber & Tire, which does not enjoy the advantage of a powerful Sears outlet, suffered severely in 1960. The company is one of the smallest in the field, and garners about 75% of its revenues from the sale of replacement tires. The combination of recession and brutal competition, however, was too much last year, and earnings fell to 38¢ per share from $1.78 the year before. The first quarter of 1961 witnessed more of the same, as earnings dipped to a 12¢ per share deficit vs. a 19¢ profit a year ago.

Fortunately, Lee's financial position is extremely strong, so that if the current problems are short-lived there should not be too much trouble. With the outlook for 1961 as bleak as 1960 (which showed the lowest earnings in well over a decade), however, management is taking no chances of financial stringency. Hence dividends were cut in half and will now be at a 50¢ rate versus the previous $1.20. The stock should be avoided by conservative investors, but more venturesome stockholders should watch carefully for signs of an upturn in profitability.

Better Companies Attractive For Patient Investors

The market has steadily raised the price earnings multiples for tire and rubber stocks, but so far few of the companies have justified investor confidence by showing a steady trend of rising earnings. General and Firestone have outperformed the others, but even their record cannot match comparable companies in other industries. Nevertheless, the better quality companies represent higher values than a majority of the companies on the New York Stock Exchange, especially over the long pull. Patient investors may be well rewarded in Goodrich, Goodyear and U.S. Rubber. General Tire, Armstrong and Firestone have a more speculative flavor, while Lee and Sieberling (which will also pay a smaller dividend in 1961) must be classed as below-par investments. END

As I See It!

(Continued from page 177)

the dark.

The Laotian and Austrian situations are not in any way analogous. **A coalition in Laos can hardly lead to anything but eventual Red domination of the entire country. Czechoslovakia would provide a better analogy, if one must have one.**

Kennedy inherited a nasty situation in Laos. Pro-western forces, with no great will to fight, were retreating under assault by heavily armed rebels, receiving 50 tons of war material per day by way of the Soviet airlift.

Kennedy had two choices—to fight or to let the British negotiate with the Russians.

Kennedy made it clear he was ready to fight, with U.S. troops if necessary, if the civil war didn't stop. **But the British persuaded him to try negotiations. This led to Western acceptance of the 14-nation conference in return for a cease-fire.**

In the long run it might have been better to fight. But the British wanted to try for a political settlement, despite the danger that it would end in complete disaster. And the French were unwilling to make a firm commitment to join SEATO if the members of that alliance decided to intervene.

There are indications that Kennedy, fully aware of the potential for disaster in the Laos Conference, is preparing to bolster neighboring South Viet Nam and Thailand for the eventual showdown with Communist forces pushing South.

This is an area in which the "unconventional warfare" which the President is talking about could very well be applied with good effect. Odds are that it will.

► The Congo has dropped out of the headlines temporarily, being overshadowed by more active crises. **But Khrushchev has not abandoned his plan to sabotage the entire U.N. operation there and plenty of others are ready to help him when the time is ripe.**

The first four months of 1961 have shown clearly that this is to be a year of mounting crises. The new Administration must act quickly to try to avert further debacles.

Time, as Kennedy himself has said, is running out. END

Book Review

The Private Papers of Hore-Belisha

R. J. MINNEY

As British Secretary of State for War in the thirties, Leslie Hore-Belisha was responsible for revamping the army so it was at least partially prepared to fight the Germans in 1939. And yet he was dismissed from his post the very year following the outbreak of war. His forced resignation from office, when he was at the peak of his power and popularity, makes him one of the most fascinating—and maligned—Englishmen of the Second World War. This book tells, for the first time, the full story that was so long obscured.

When Hore-Belisha became Secretary of State, service conditions for the enlisted men were so anachronistic that the army was considered a last resort career. Promotion of officers was on a straight seniority basis—"it's old Bertie's turn"—not on merit. Hore-Belisha made devastating changes and dispensed with the services of those certain to oppose them, even though he was forewarned that the disappointed "army brass" who were being overlooked would do everything possible to oust him.

At the time of his resignation, Hore-Belisha declined to explain his views before Parliament—unlike any other dismissed Secretary—because he realized that by so doing, he would be giving valuable military information to the enemy. For years the mystery of this man who soared to meteoric fame and fell to obscurity was never fully explained.

Using Hore-Belisha's diary, photographs, newspaper accounts, and political cartoons of the time, R. J. Minney has brilliantly reconstructed the events which led to Hore-Belisha's dismissal. His commentary is engrossing as he sketches the precise job of character assassination which destroyed Hore-Belisha.

The Private Papers of Hore-Belisha tells the complete story of his betrayal, as sensational a story today as it was in 1940.

Doubleday $4.50